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MAINE DEPARTMENT OF LABOR
POLICY AND PROCEDURES

ISSUANCE DATE:	**June 3, 2008**
POLICY NUMBER:	**08-01**
RECISSION:	

To: **Local Board Directors**

From: **Ned McCann, Director**
Bureau of Employment Services

CC: **CareerCenter Distribution**
Service Provider Directors
BRS Director
BES Commerce Center
SESC Financial Staff

SUBJECT: **Revised Financial System Manual**

BACKGROUND

SESC in conjunction with BES have revised the Financial System Manual to comply with a recent Federal review conducted by ETA staff from Region 1.

POLICY

The revisions outlined in this policy and procedures manual effects transactions after June 30, 2008. LWIB's and sub-recipients will have three months to update their written policy and procedures to comply with the changes in the Financial System Manual. All policy and procedures updates need to be completed by September 30, 2008, a copy of these revisions needs to be forward to SESC for review. Failure to complete the policy and procedures update could delay future payments to the LWIB's and sub-recipients after September 30, 2008. These policy and procedures will be used in conjunction with the CFR's, TAGS, TEIN and OMB Circular to conduct the annual monitoring of the LWIB's; it is the responsible of the LWIB's to provide these policy and procedures to key financial staff and/or sub-recipients.

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The Maine Department of Labor provides equal opportunity in programs, services and employment.

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Effective date:

July 1, 2008

State of Maine

Department of Labor

Financial System Manual

Revised June 2008

FINANCIAL SYSTEMS MANUAL
July 2008

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SECTION A

Definitions

Accrued Expenditures: The charges incurred by the grantee (contractor) during a given period requiring the provision of funds for 1) goods and other tangible property received, 2) services performed by employees, subcontractors, and other payees; and 3) other amounts becoming owed (by the contractor) under programs for which no current services or performance is required, such as annuities, insurance claims, and other benefit payments. [29 CFR 97.3]

Acquisition Cost: The net price of property, including the cost of modifications, attachments, accessories, or auxiliary apparatus necessary to make the property usable for the purpose for which it was acquired. Other charges, such as the cost on installation, transportation, taxes, duty, or protective in-transit insurance, shall be included or excluded from the unit acquisition cost in accordance with the contractor's regular accounting practices. [29 CFR 95.2, 29 CFR 97.3]

Advance: A payment made to a contractor upon its request either before outlays are made by the contractor or through the use of predetermined payment schedules. [20 CFR 95.2]

Audit Finding: A deficiency that the auditor is required to report in the schedule of findings and questioned costs.

Audit Resolution: This is the process of resolving findings or exceptions as noted in a formally issued audit report.

Auditee: A non-Federal entity that expends Federal awards which must be audited under 29 CFR 99.

Auditing: This is an objective systemic review process that involves selecting and evaluating evidence for the purpose of:

1) ascertaining the reliability of reported financial information in terms of its (a) correspondence with the underlying economic events being accounted for and reported, and (b) conformity with generally-accepted accounting principles (GAAP) for recording and reporting such events; or

2) appraising activities from the standpoint of (a) the adequacy and effectiveness of controls established over activities, (b) the efficiency with which the activities are carried out, and (c) the effectiveness of the activities in accomplishing stated objectives.

Auditors, Independent: These are usually public accountants who are independent contractors and are primarily engaged to attest to the reliability of financial information reported, reliability of financial information, adequacy and effectiveness of activities on accomplishing objectives.

Award, Federal: Federal financial assistance and Federal cost-reimbursement contracts that non-Federal entities receive directly from Federal awarding agencies or indirectly from pass-through entities. [29 CFR 99.105]

Bureau: As regards the Workforce Investment Act, the Bureau refers to the Maine Department of Labor's Bureau of Employment Services.

Capital Assets: Those assets resulting from expenditures on land and property, including upkeep and repairs that affect the value of the property, regardless of price, and from purchasing nonexpendable personal property. Capital assets are noncurrent in that they may not be available to finance current operations. Noncurrent intangible assets such as copyrights are not capital assets. All purchases for capital assets shall be in accordance with all cost principles contained in this manual.

Capital Expenditures: Expenditures on facilities, equipment, other capital assets, and repairs that materially increase the value or useful life of capital assets.

Capital Leases: These are the agreements that transfer substantially all of the benefits and risks incident to ownership of the property so that the economic effect of the parties is similar to that of an installment purchase. A capital lease is, for the most part, viewed as an installment purchase of property rather than the rental of property. The lease must meet one of the following four criteria to be classified as a capital lease:

1) The lease transfers ownership of the property of the lessee.

2) The lease contains a bargain purchase option.

3) The lease term is equal to seventy-five percent or more of the estimated economic life of the leased property.

4) The present value of the minimum lease payments – excluding executory costs – equals or exceeds ninety percent (90%) of the fair value of the leased property.

Cash Contributions: The contractor's cash outlay, including the outlay of money contributed to the contractor by other public agencies and institutions, and private organizations and individuals. [29 CFR 97.3 and 95.2] When authorized by Federal legislation, Federal funds received from other assistance agreements ma be considered as contractor cash contributions. [29 CFR 97.3 only]

CFDA Number: The number assigned to a federally-funded program in the Catalog of Federal Domestic Assistance (CFDA). [29 CFR 99.105] Each Federal program is

identified by a unique 2-digit, 3 decimal number. Contractors can most often find a program's CFDA number on the cover page of their contract with the Bureau.

Claim: A written demand or written assertion by the grantee seeking, as a matter of right, a) the payment of money in a sum certain, b) the adjustment or interpretation of award terms, c) or other relief arising under or relating to the award. A voucher, invoice or other routine request for payment that is not a dispute when submitted is not a claim. Appeals, such as those filed by a governmental unit in response to questioned audit costs, are not considered claims until a final management decision is made by the Federal awarding agency.

Cognizant agency: The federal agency designated to carry out the responsibilities described at 29 CFR 99.400. For audit purposes, the federal awarding agency which provides the predominant amount of direct funding.

Contract Closeout: The final report package by which the contractor certifies completion of all applicable administrative actions and all required work of the contract.

Contractor: Any non-federal entity that enters into a formal contractual agreement with the Bureau of Employment Services to carry out a federal or state program. (This does not include an individual who is a beneficiary of such a program.) Also known as a **subrecipient**.

Corrective Action: For audit purposes, action taken by the auditee that 1) corrects identified deficiencies, 2) produces recommended improvements, or 3) demonstrates that audit findings are either invalid or do not warrant auditee action. [29 CFR 99.105]

Cost: Any cash or accrued expenditure.

Cost Allocation: The rational and equitable process by which allowable costs are distributed among benefiting cost objectives.

Cost Allocation Plan: The document describing how the allowable costs of the contractor or subcontractor are identified, accumulated, and assigned (i.e., allocated) to the appropriate cost objectives (i.e., funding sources).

Cost Objective: A function, organizational subdivision, contract, grant, or other activity for which cost data is needed and for which costs are incurred. [OMB Circular A-87]

Cost Pools: These are temporary accounts. Costs that are charged initially to a cost pool are then allocated to the benefiting programs based on the benefits received by each.

Disallowed Costs: Those charges to a contract that the Bureau (or USDOL) determines to be unallowable, in accordance with the applicable Federal cost principles or other terms and conditions contained in the contract. [29 CFR 95.2]

Drawdown: The process whereby contractors request and receive monies against their outstanding (i.e., ongoing) contracts. See the **Reports** section of this manual for the **Request for Funds** form.

ETA: The Employment and Training Administration of the U.S.DOL.

Equipment: Tangible nonexpendable personal property, including exempt property charged directly to a contract, having a useful life of more than one year and an acquisition cost of $5,000 or more per unit. Equipment includes, but is not limited to, equipment acquired before the publication of these regulations and equipment transferred from prior years.

Federal Audit Clearinghouse (FAC): An agent for OMB to maintain a government-wide database of single audit results and reports. (http://harvester.census.gov/sac)

Fiscal Year: For the State, the period between July 1 of a calendar year and June 30 of the following calendar year, with the subsequent calendar year as the FY designator. For example, Fiscal Year 20xx or FYxx, begins on July 1, 20xx and ends on June 30, 20xx. The Federal Fiscal Year is the period between October 1 of a calendar year and September 30 of the following calendar year, again with the subsequent year acting as the designator. In Maine, Federal and State Fiscal Years are often differentiated by using FY as the prefix for the Federal year and SY for State.

GAAP: Generally Accepted Accounting Principles. These are accounting rules and procedures established by authoritative bodies or conventions that have evolved through custom and common usage. Issued by the American Institute of Certified Public Accountants. [29 CFR 99.105]

GAGAS: These are generally accepted government auditing standards issued by the Comptroller General of the United States, which are applicable to financial audits. [29 CFR 99.105]

Grantee: The direct recipient of grant funds from the USDOL. A grantee may also be referred to as a **recipient**. [20 CFR 660.300] The grantee is designated in the federal grant award document.

Indirect Costs: Indirect costs are those: a) incurred for a common or joint purpose benefiting more than one cost objective, and b) not readily assignable to the cost objectives specifically benefiting, without effort disproportionate to the results achieved.

Intangible Property and Debt Instruments: These include, but are not limited to, trademarks, copyrights, patents, and patent applications. Also included are such property as loans and other debt instruments, lease agreements, stock, and other instruments of property ownership, whether considered tangible or intangible. [29 CFR 95.2]

Internal Control: A process, effected by an entity's management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories: 1) effectiveness and efficiency of operations, 2) reliability of financial reporting, and 3) compliance with applicable laws and regulations. [20 CFR 99.105]

Internal Controls, as they Pertain to Federal Compliance Requirements: A process, effected by an entity's management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following Federal objectives categories:

1) Transactions are properly recorded and accounted for to

    a. permit the preparation of reliable financial statements and Federal reports,

    b. maintain accountability over assets, and

    c. demonstrate compliance with laws, regulations, and other compliance requirements.

2) Transactions are executed in compliance with

    a. laws, regulations, and the provisions of contracts or grant agreements that could have a direct and material effect on a Federal program, and

    b. any other laws and regulations that are identified in the compliance supplement.

3) Funds, property, and other assets are safeguarded against loss from unauthorized use or disposition. [29 CFR 99.105]

Maine Jobs Council: The state workforce investment board established under Section 111 of the Workforce Investment Act. [Also see 20 CFR 660.300]

Management Decision: The evaluation by the Federal awarding agency or pass-through entity of the audit findings and corrective action plan and the issuance of a written decision as to what corrective action is necessary. [29 CFR 99.105]

Materials and Supplies: All tangible personal property excluding equipment.

Non-Federal Entity (NFE): A state (including federally-recognized Indian tribes), local government, university, or non-profit organization.

Obligations: The amounts of orders placed, contracts awarded, goods and services received, and similar transactions during a given period that will require payment by subcontractor during the same or a future period. [29 CFR 667.150]

Outlays (Expenditures): Charges made to the project or program (contract). *They are to be reported on an accrual basis.* As such, they are the sum of actual cash disbursements, the amount of indirect expense incurred, the value of in-kind contributions applied, and the new increase (or decrease) in the amounts owed by the contractor for goods and other property received, for services performed by employees, subcontractors and other payees, and other amounts becoming owed under programs for which no current services or performance are required, such as annuities, insurance claims, and other benefit payments.

Pass-through Entity: A non-Federal entity that provides a Federal award to a subrecipient to carry out a Federal program. [29 CFR 99.105]

Personal Property: Property of any kind except real property. It may be tangible, having physical existence, or intangible, having no physical existence, such as copyrights, patents, or securities. [29 CFR 95.2]

Procurement: The acquisition of property or services – through purchase orders, contract release, or other means such as sealed bids, competitive proposals, or noncompetitive proposals – that are needed to accomplish program objectives.

Program Income: Gross income earned by the contractor that is directly generated by a supported activity or earned as a result of the award. Program income includes, but is not limited to, income from fees for services performed, the use or rental of real or personal property acquired under federally-funded projects, the sale of commodities or items fabricated under an award, license fees and royalties on patents and copyrights, and interest on loans made with award funds. Interest earned on advances of federal funds is not program income. (**NOTE:** Interest earned on advances of WIA money, **is** considered program income.) Except as otherwise provided in federal awarding agency regulations or the terms and conditions of the award, program income does not include the receipt of principal on loans, rebates, credits, discounts, etc., or interest earned on any of them. [29 CFR 95.2]

Program-specific Audit: An audit of one Federal program as provided for in 29 CFR 99.200 and 99.235.

Program Year (PY): The period between July 1 of a calendar year and June 30 of the following calendar year. The PY designator is the year the period begins. For example, Program Year 20xx is the one year period that begins July 1, 20xx.

Project Period: The period established in the contract during which Bureau sponsorship begins and ends.

Project Costs: All allowable costs, as set forth in the applicable cost principles, incurred by a recipient and the value of the contributions made by third parties in accomplishing the objectives of the contract during the project period.

Property: Unless otherwise stated, this is real property, equipment, intangible property, and debt instruments.

Questioned Cost: A cost that is questioned by an auditor because of an audit finding 1) that resulted from a violation or possible violation of a provision of a law, regulation, contract, grant, cooperative agreement, or other agreement or document governing the use of federal, including funds used to match federal funds; 2) where the costs, at the time of the audit, are not supported by adequate documentation; or 3) where the costs incurred appear unreasonable and do not reflect the actions a prudent person would take in the circumstances.

Real Property: Land, including land improvements, structures, and appurtenances thereto, excluding movable machinery and equipment.

Recipient: See **grantee**.

Request for Funds: See **drawdown**. The **Request for Funds** form is included in the **Reports** section of this manual.

Single Audit: An audit which includes both the entity's financial statements and the Federal awards as described in 29 CFR 99.500.

Subgrantee or subrecipient: See **contractor**. A subgrantee or subrecipient may also be a recipient of other federal awards directly from a federal awarding agency.

Unliquidated Obligations: For reports prepared on an accrued expenditure basis, unliquidated obligations represent the amount of obligations incurred by the contractor for which an outlay has not be recorded.

Unobligated Balance: The portion of the funds authorized by the Bureau that has not been obligated by the contractor and is determined by deducting the cumulative obligations from the cumulative funds authorized.

Vendor: A dealer, distributor, merchant, or other seller providing goods or services that are required for the conduct of a Federal program. These goods or services may be for an organization's own use or for the use of beneficiaries of the federal program. [29 CFR 99.105]

Wagner-Peyser Act: The Wagner-Peyser Act of June 6, 1933, as amended, codified at 29 U.S.C. 49 et seq. [20 CFR 660.300]

ACRONYMS / INITIALS

EA	Employer Assistance
ETA	Employment and Training Administration
FTE	Full-Time Equivalent
FY	Fiscal Year. The Federal Fiscal Year begins on October 1 and ends September 30 of the subsequent calendar year. The State Fiscal Year, also referred to as SY, begins on July 1 and ends on June 30 of the subsequent calendar year.
GAAP	Generally Accepted Accounting Principles
GAO	General Accounting Office
MOU	Memorandum of Understanding
NAFTA	North American Free Trade Agreement
OIG	Office of the Inspector General
OMB	Office of Management and Budget
PY	Program Year. The WIA Program Year begins on July 1 and end on June 30 of the subsequent year.
RFP	Request for Proposals
TAA	Trade Adjustment Act
TAG	Federal Technical Assistance Guide
TANF	Temporary Assistance to Needy Families
WIA	Workforce Investment Act

WORKFORCE INVESTMENT ACT, FINANCIAL REPORT, FR-10

Workforce Investment Act Formula Funds
(Youth, Adult, Dislocated Workers, 10% Administration)

Due: Quarterly, on the twenty-fifth (25th) of the month following the last day of each quarter.

Instructions: This is a Federal report that has been somewhat modified to accommodate state needs. Expenditures are to be reported on an accrual basis and are to be cumulative to the start of the contract. A report must be submitted for any / all contracts that are active, which is to say, have yet to be formally closed out.

PLEASE NOTE: FIFO (First in, first out) is applicable to each funding silo (Youth, Adult, Dislocated Workers and 10% Administration). Contracts are to be closed only after each funding silo is exhausted.

a. **Cash Receipts:** Enter the cumulative amount of actual cash received from Maine Department of Labor. This amount should reconcile to the LWIB accounting system.

b. **Cash Disbursements:** Enter the cumulative amount of actual disbursements –cash and/or checks- for the report period. Disbursements are the sum of actual cash disbursements for direct charges for goods and services, the amount of indirect expenses charged to the award, and the amount of cash advances and payments made to subcontractors.

c. **Cash on Hand (line a minus b):** this amount should represent immediate cash needs. If more than three (3) days cash requirements are on hand, provide and explanation in the Remarks section as to why the drawdown was made prematurely or other reasons for the excess cash.

d. **Total Federal Funds Authorized:** These are the contractor's total contract amount before approved transfers.

e–i. Transfers: Complete as indicated.

j. **Federal Funds Expended:** Expenditures are the sum of actual cash disbursements for direct charges for goods and services, expenses incurred but not yet recorded (accrual), the amount of indirect expenses charged to the award, and the amount of cash advances and payment made to subrecipients and subcontractors, minus program income expended in accordance with the deduction alternative, rebates, refunds, or other credits. Program Income expended in accordance with the deduction alternative should be reported separately on line g. Accrued expenditures

also include the total costs of all goods and property received or services performed, whether or not a cash payment has occurred. Accrued expenditures are recorded in the reporting quarter in which they occur regardless of when the related cash receipts and disbursements take place.'

k. **Federal Unliquidated Obligations:** These are binding, legal agreements with specific vendors. They may include contracts (see note below), fulfillment of a customer service plan, obligations also include all formal agreements for the purchases of goods and services.

   Notes: For reporting purposes, the precise amount of the obligation is preferable. If an estimate is to be used, the basis for that estimate needs to be on file. Also for reporting purposes, obligations are to be reduced by the amount that will subsequently be reported as an accrual. This is an accounting function that will be done based on the date of the obligation.

l. **Total Federal Obligations (line j plus k):** Self-explanatory

m. **Unobligated Balance of Federal Funds (line i minus l):** Self-explanatory

n-o. **Youth Activity Detail:** Line n plus line o should equal line b.

p. **Recipient Share, Grant Outlays:** include any costs incurred, such as stand-in-costs, not paid for with Federal funds. This line is non-additive.

q. **Disbursed Program Income Using the Addition Alternative:** Enter the amount of program income that was added to funds committed to the total project costs and expended to further eligible project or program activities.

r. **Undisbursed Program Income:** Enter the amount of program income that has been earned not expended as of the reporting period end-date.

s. Total Program Income Realized (Line q plus r): Self-explanatory

WIA 25% / 10% FINANCIAL REPORT, FR-15

Workforce Investment Act (WIA) 25% Rapid Response Funds

Workforce Investment Act (WIA) 10% Setaside Funds

Due: Quarterly, on the twenty-fifth (25th) of the month following the last day of each quarter.

Instructions: Expenditures are to be reported on an accrual basis and are to be cumulative to the start of the contract. A report must be submitted for any / all contracts that are active; which is to say, have yet to be formally closed out.

a. **Total outlays** (accrued expenditures) are the sum of actual cash disbursements for direct charges for goods and services. This also includes unpaid amounts for goods or services received through the reporting period.

b. **Refunds, rebates** or any receipt that is treated as a reduction of expenditures rather than as income. These may be netted out of total outlays on line a.

d. **Recipient outlays for allowable program activities** include any costs incurred – such as stand-in costs – not paid for with Federal funds.

f. **Federal unliquidated obligations** are obligations incurred, but for which an outlay (expenditure) has not yet been recorded in the contractor's books of account. This amount should include unliquidated obligations to subcontractors.

g. **Total federal funds authorized for this funding period** refers to the contractor's total contract amounts.

Program Income (Defined): Program income means income received by the contractor that has been generated by a grant- or subgrant-supported activity or is earned only as a result of the grant or subgrant.

MISCELLANEOUS GRANT AND CONTRACTS, FINANCIAL REPORT, FR-30

This format is to be used for reporting expenditures related to activities funded by the following funding sources:

- WIA National Emergency Grant (NEG) Contracts
- Employer Assistance Contracts (non-WIA 25% only)
- Wagner - Peyser Contracts
- Other Contracts as indicated

Due: Quarterly, on the twenty-fifth (25th) of the month following the last day of each quarter.

Instructions: Clearly identify the funding source and the total contract amount.

Report against only those major line items that are identified in the contract itself. For example: Administration, Training, Services, and Rapid Response. If the contract contains no Line Item Budget (i.e., if only a total dollar amount is indicated), all expenditures should be reflected in All Other.

Stand-in costs are incurred allowable costs of the grant that have been paid from a non-Federal funding source due to funding limitations. These costs must be recorded in the books of account and included in the financial statements presented to the auditor.

LABOR COMMITTEE FINANCIAL REPORT, FR-40

Applicable to: Local Areas (and, indirectly, Service Providers)

Due: Quarterly, on the twenty-fifth (25th) of the month following the last day of each quarter.

Instructions: Expenditures for PY03 are to be reported cumulatively on an accrual basis starting on July 1, 2003. **They must reflect *actual expenditures* regardless of whether monies are old or new.**

Total One-Year Availability: These should include ***all*** available funds for ***the year***: old WIA monies, new WIA monies and new General Fund monies – regardless of program (Employer Assistance, CareerCenter Funds, other). **Local Areas** are to aggregate their Service Providers' reports and then include any funds from the list of identified funding sources (Adult, DW, 10% Setaside, General Fund) that they (LA's) receive but do not pass through.

NOTE: Dislocated worker monies are NOT to include any 25% Rapid Response contracts.

Salaries and Benefits are the amounts paid for staff salaries and benefits.

All Other includes any other operating costs (but not any participant costs).

Training Costs are participant costs incurred for training activities.

Support Services Costs are participant costs incurred for support services. Please note that we have removed Subsistence costs in favor of Needs-Based Payments.

CONTRACT CLOSEOUT PACKAGE

Purpose: The contract closeout package is required for any contracts written between the Bureau of Employment Services and 1) the Local Areas or 2) the Service Providers. Closeouts are required within **sixty (60) days** of 1) the contract end-date or 2) full expenditure of the contract's financial resources, whichever comes first.

Instructions: For the most part, the forms are self-explanatory. At minimum, each closeout package must contain the following:

1. The Financial Closeout Package Transmittal Sheet, FR-01;
2. A financial summary form consisting of the funding source's standard quarterly financial report, indicating on the form that it is the **closeout submission**;
3. A Cash Report form, FR-02;
4. The Closeout Tax Certification form, FR-03;
5. The Awardee's Release form, FR-04; and
6. The Property Inventory Certification form, FR-05.

Where forms request a Contract / Agreement Number, please include the handwritten number from the upper right hand corner of your **processed** contract. (It usually will begin with a "U" or a "G.")

SECTION C

FINANCIAL MANAGEMENT SYSTEMS

Regulations

DOL regulations for the management of ETA grant funds are specified in 29 CFR Part 97 for States, local, and Indian tribal governments and at 29 CFR part 95 for institutions of higher education, hospitals, other non-profit organizations, and commercial or for-profit organizations that function as subrecipients. Both Parts 97 and 95 establish a set of seven standards that must be included in the financial management systems. Also, the Circulars of the Office of Management and Budget (OMB), Generally Accepted Accounting Principles and One-Stop Comprehensive Financial Management Technical Assistance Guide must be used when using Work Force Investment Act funds.

Standards

Each of the following standards must be included in the financial management systems of all subrecipients:

1. **Financial Reporting:** Accurate, current, and complete disclosure of the financial activities of each grant awarded must be made as required by the terms of the grant. All allowable costs must be traceable to the accounting records. See Section B for additional reporting information.

2. **Accounting Records:** Records must be maintained that identify the source and expenditure of grant funds. The records must contain information pertaining to the award and authorization, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income. The records must be maintained in accordance with Generally Accepted Accounting Principles. Subrecipients are required to maintain their books on an accrual basis of accounting.

3. **Internal Control:** Effective control and accountability must be maintained for cash, real and personal property, and other assets. All such assets must be adequately safeguarded and used soley for authorized purposes.

4. **Budget Control:** To ensure that overspending does not occur, actual expenditures or outlays must be compared with budgeted amounts for each grant award. Financial information must be related to performance or productivity data, including the development of unit cost information , when specifically required in the grant.

5. **Allowable Costs:** The subrecipient must determine what costs are allowable in accordance with OMB cost principles, grant regulations, and the terms of the grant award. In addition, no grant may pay more than its fair share of the costs

(allocability). See Section E for further information on cost principles and Section F for further information on allowable costs.

6. **Source Documentation:** Accounting records must be supported by source documentation such as canceled checks, invoices, purchase orders, paid bills, payrolls, time and attendance records, and award documents. The source documentation must relate directly to the costs claimed on drawdown requests and quarterly financial reports.

7. **Cash Management:** Procedures for minimizing cash on hand must be established by each subrecipient. See Section D for cash management requirements.

The State, at any time subsequent to an award, may review the administrative and financial management system of a subrecipient. The subrecipient should have processes and procedures that clearly document how it will adhere to the seven aforementioned standards. These processes and procedures should be reviewed on a yearly basis by the LWIB to ensure their accuracy.

Agreements and contracts are generally for the purposes of carrying out the intent of grants and funding sources. LWIB's and subrecipient's are responsible to maintain books and records for each funding source separately.

Precedence of Requirements- The Workforce Investment Act and other Federal laws take precedence in the event of a conflict of directives to recipients and service providers. Regulation promulgated under the Federal law and regulations, provider agreements and this policy manual guide the programs. Any conflicts of directives should be determined based on the reference source having the greatest precedence. The Bureau of Employment Services (BES) and Security & Employment Service Center (SESC) reserve the right to update, amend and waive any and all policies in this manual.

SECTION D

DRAWDOWNS/CASH MANAGEMENT

Introduction

The federal regulations at 29 CFR 97.21 (Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments) and at 29 CFR 95.22 (uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education. and Other Non-Profit Organizations...) govern the cash management requirements for subgrantees and are summarized as follows:

- Cash drawdown procedures shall minimize the time between the transfer of funds and the disbursement of funds.
- Advance payments will be allowed provided that the subgrantee has demonstrated the ability to maintain minimal time between receipt and disbursement of funds.
- Subgrantees who have failed to meet the above standards will be paid on a reimbursement basis.
- Subgrantees are encouraged to use minority- and women- owned banks.
- For WIA Title I programs, interest earned from an interest-bearing account is treated as program income.

Subgrantee Cash Advances

Subgrantees are required to submit "Request for Funds" form FR-99. See Attachment 1.

As a general rule, requests will be processed once a week on Thursday. Holidays and shutdowns will delay the process.

Given the restrictive environment, projections and timing become very important for good cash management. Where possible, subgrantees should adjust disbursement cycles to coincide with the receipt and pay-out of cash. In no case can the advance period exceed one week from the expected receipt date of the drawdown funds.

All requests are to be submitted to the Security & Employment Service Center (SESC) no later than 4 p.m. on Wednesday. Notice will be provided for changes of due date as a result of shutdowns or holidays. Requests must be signed prior to faxing request to SESC at 287-8394. All weekly drawdowns will be reviewed

Subgrantees will be notified by telephone of any discrepancies discovered prior to final processing of the FR-99. This will include such items as an incorrect advance period or insufficient contract funds. Corrections will require a revised FR-99.

Multi-funded subrecipients will receive a quarterly summary of contract drawdowns and balances. This will be for informational purposes only, although any discrepancies noted by the subgrantees should be brought to the attention of SESC.

The following example will illustrate how the drawdown process would typically work.

Sun	Mon	Tues	Wed	Thurs	Fri	Sat
			1	2	3	4
5	6	7	8	9	10	11
12	13	14	15	16	17	18
19	20	21	22	23	24	25
26	27	28	29	30		

The subgrantees submit the Request for Funds (FR-99) on Thursday, the 2nd. SESC then draws the funds from the Division of Federal Assistance Financing through the Department of Health and Human Services' Payment Management System. The funds are then transferred electronically to the State Treasury. These funds would be available on Monday, the 6th.

On Monday, the 6th, the FR-99 invoice is then submitted to the Bureau of Account and Control for check issuance or electronic funds transfer to the subgrantees. The processing of the FR-99 requires two overnight updates and the checks are issued on Wednesday, the 8th. EFT transfers would be available on the afternoon of the 8th. In the case of checks being mailed, the check should arrive by the 9th.

Note that in this example the "Funding Period End Date" would be one week from either the 8th or the 9th. In other words, the funds received would be used for pay out of cash from the 8th through the 15th. Cash for the week of the 16th through the 22nd would be requested on Thursday, the 9th.

The above process is the best case scenario. It assumes that each agency involved has accomplished tasks in a timely and accurate manner to avoid delays at the next step.

Additional Cash Forecasting Considerations

Some additional considerations for cash forecasting include:

- Net payroll should be used for cash forecasting purposes instead of gross salaries and wages. Normally, payroll deductions and tax deposits are submitted at a time different from the payroll dates. Fringe benefits, such as retirement, medical, FICA, and workers compensation, is also normally paid in a period

different from the corresponding payroll dates. Cash should not be requested until the actual disbursement dates for such items.

- Cash is not needed to accommodate an accrual until the actual disbursement is made.

- Incurring an obligation does not require cash. Cash is needed only when checks written against those obligations clear at the bank.

- Interest earned on cash drawn down for WIA Title I grants is considered program income and shall be disbursed before requesting additional funds. This requirement is to ensure that cash attributable to WIA does not remain in a bank account at the same time the subgrantee is drawing additional cash to meet immediate WIA needs. Any cash attributable to WIA should be immediately disbursed for whatever WIA disbursement need exists. At the time the cash is needed for the purposes for which the program income was planned to be used, it can be accessed through the normal grant drawdown process.

- Governmental subgrantees must remit interest earned on non-WIA Title I funds to the ETA that are in excess of $100 per year. See 29 CFR 97.21(i).

- Nongovernmental subgrantees must remit interest earned on non-WIA Title I funds to the ETA that are in excess of $250 per year. See 29 CFR 95.22(l).

Reimbursement Method

Reimbursement will be the method of payment when a subgrantee has failed to meet the requirements for advance payments. Under this method, payment is made to subrecipients after the costs have been incurred. The Request for Funds FR-99 must be completed with the "Funding Period End Date" being the date of submission. Additional information may be required based on individual circumstances. The transfer of funds will be accomplished in the same manner as described in the advance payments section.

State-Level Cash Management

As required by the Cash Management Improvement Act (CMIA), the Treasury-State Agreement sets forth the terms and conditions for implementing the funding arrangement for programs between the Federal Government and State recipients. Additional information on funding techniques is available from Department of Treasury regulations at 31 CFR Part 205.

The Bureau of Accounts and Control, in conjunction with State Treasury, is responsible for the calculation and payment of interest liabilities on the basis of the State fiscal year.

Excessive Cash

Excess cash is the average daily cash balance maintained that exceeds the greater of $5,000 or three days average expenditures. The grantee must develop procedures to maintain cash balances below these amounts. Grantees may reduce cash balances by: reducing the amount of the request, requesting cash more frequently, minimizing the time elapsing between the receipt and disbursement of MDOL funds, and by returning excess cash to MDOL. If the grantee fails to operate within this requirement and accumulates excess cash and related interest income, the following may be required:

- MDOL may require corrective action to minimize or eliminate excess cash if the grantee consistently fails to conform to these guidelines.
- MDOL may charge the grantee a penalty assessment based on the amount of interest income earned. The grantee may pay this amount from the account where the interest earned on the excess cash was credited. Otherwise, the payment must be from non-MDOL funding sources.
- In the event of serious abuse, as determined on a case-by-case basis, MDOL may seek recovery of funds.

SECTION E

COST PRINCIPLES

Introduction

There are Federal cost principles that define when and how costs can be charged to grants: OMB Circular A-87 Cost Principles for State, Local and Indian Tribal Governments; and A-122 Cost Principles for Non-Profit Organizations. The OMB Circulars are incorporated by reference at 29 CFR 95.27 and 29 CFR 97.22 and further specified in program regulations. Even though the circulars do not address every possible cost, they are the groundwork for all grant financial management, and grantees and subgrantees should rely on their guidance to avoid audit findings and potential liability.

The following general cost principles, as specified in the cost circulars and regulations must be used in determining cost allowability for grants.

A. **Costs must be necessary and reasonable:** Any cost charged to a grant must be necessary and reasonable for the proper and efficient performance and administration of the grant. A grantee or subgrantee is required to exercise sound business practices and to comply with its procedures for charging costs.

B. **Costs must be allocable:** A grantee or subgrantee may charge costs to the grant if those costs are clearly identifiable as benefiting the grant program. Costs charged to the grant should benefit only the grant program,not other programs or activities. In order to be allocable, a cost must be treated consistently with like costs and incurred specifically for the program being charged.

C. **Costs must be authorized or not prohibited under Federal, State, or local laws or regulations:** Costs incurred must not be prohibited by any Federal, State, or local laws.

D. **Costs must receive consistent treatment by a grantee**: A grantee or subgrantee must treat a cost uniformly across program elements and from year to year. Costs that are indirect for some programs cannot be considered direct ETA grant costs.

E. **Costs must not be used to meet matching or cost-sharing requirements:** A grantee may not use federally funded costs, whether direct or indirect, as match or to meet matching fund requirements unless specifically authorized by law.

F. **Costs must be adequately documented:** A grantee must document all costs in a manner consistent with GAAP. Examples include retaining evidence of competitive bidding for services or supplies, adequate time records for employees who charge time against the grant, invoices, receipts, purchase orders, etc.

G. **Costs must conform to ETA grant exclusions and limitations:** A grantee or subgrantee may not charge a cost to the grant that is unallowable per the grant regulations or the cost limitations specified n the regulations.

SECTION F

ALLOWABLE COSTS

Introduction

As the first source of reference, subrecipients of Federal awards should use the guidelines contained in the Office of Management and Budget (OMB) circulars for determining allowable costs. Subrecipients are expected to become thoroughly familiar with the OMB Circular or related regulations applicable to their organization. The Circulars and other regulations are as follows:

- OMB Circular A-21 — Cost Principles for Educational Institutions
- OMB Circular A-87 — Cost Principles for State, Local, ... Governments
- OMB Circular A-122 — Cost Principles for Non-Profit Organizations
- 48 CFR Part 31 — Contract Cost Principles (Commercial Organizations)
- OMB Circular A-133 — Audits of States, Local Governments, and Non-Profit Organizations
- Department of Employment, Training and Rehabilitation Policies
- USDOL Technical Assistance Guides (TAGS)
- Training Employment Information Notice (TEIN)
- Workforce Investment Act Letters (WIAL's)

The circulars are available on the internet at: http://www.whitehouse.gov/omb/circulars

Note that any capital expenditures are to be approved in advance by the Maine Department of Labor Bureau of Employment Services Bureau Director.

Subrecipients should also be familiar with the appropriate ETA regulations which may impose conditions or disallow a cost allowable per the circulars.

WIA Provisions

Following are WIA specific provisions related to unallowable costs:

- Legal expenses for the prosecution of claims against the Federal government are unallowable. See 20 CFR 667.200(c)(6).
- Costs of construction or purchase of facilities are unallowable other than the four exceptions noted in the regulations at 20 CFR 667.260.
- Employment-generating activities are unallowable. See 20 CFR 667.262.
- Public service employment activities, except to provide disaster relief employment, are unallowable. See 20 CFR 667.264(a)(2).
- Wages of incumbent employees participating in Statewide economic development activities are unallowable. See 20 CFR 667.264(a)(1).
- Employment or training programs for sectarian activities are unallowed. See 20 CFR 667.266.
- Use of funds for business relocation that results in the loss of an employee's job is prohibited. See 20 CFR 667.268.
- Use of funds for foreign travel is unallowable.

The following chart is provided as a reference for specific costs. The narrative portion of the chart is intended to provide initial guidance; please refer to the citations for further information. Failure to mention a particular item of cost in the standards is not intended to imply that it is either allowable or unallowable; rather, the determination of allowability in each case should be based on the treatment of standards provided for similar or related items of cost.

SUMMARY OF COST ITEMS

KEY

NT = Not treated in circular
A = Allowable
AC = Allowable with conditions
AP = Allowable with prior approval of either the Grant Officer or Governor
U = Unallowable
A/U = Some categories within the particular activity are allowable, while some are not. Please consult respective circular for precise explanations.

Note: Some of the costs on this chart are allowable under the circulars and prohibited under the Workforce Investment Act or other program-specific regulations. You should refer to the program-specific regulations if you have any questions on allowability of a particular cost. This chart is for reference only.

In addition, when reviewing the provisions related to selected items of cost in the OMB circulars, the cost principles applied in establishing the allowability of certain items of cost apply whether the cost is treated as a direct or indirect cost. Failure to address a particular item of cost is not intended to imply that it is unallowable. Rather, the determination of allowability in each case should be based on the treatment or principles provided for similar or related costs. Note also that, in some instances, different cost items may be similarly named, and there may be some overlap in the cost items treated by the different circulars. Again, this chart is for reference only.

	Cost Item	Circular A-21	Circular A-122	Circular A-87	48 CFR Part 31
1	Advertising/public relations	AC/U	AC/U	AC/U	AC
2	Advisory councils	A	A	A	NT
3	Alcoholic beverages	U	U	U	U
4	Alumni/ae activities	U	NT	NT	NT
5	Asset valuations resulting from business combinations	NT	NT	NT	A
6	Audit services	A	A	A	NT
7	Bad debts	U	U	U	U
8	Bonding costs	A/AC	A/AC	A/AC	A/U

	Cost Item	Circular A-21	Circular A-122	Circular A-87	48 CFR Part 31
9	Commencement and convocation costs	U	NT	NT	NT
10	Communication costs	A	A	A	NT
11	Compensation for personnel services	A/U	A/U	AC/U	A/U
12	Contingency provisions	U	U	U	A/U
13	Deans of faculty and graduate schools	A	NT	NT	NT
14	Defense and prosecution of criminal and civil proceedings, claims, appeals, and patent infringement	AC/U	AC/U	A/U	U
15	Deferred research and development costs	NT	NT	NT	AC/U
16	Depreciation and use allowances	AC	AC	AC	AC
17	Donations and contributions	U	U	U	U
18	Economic planning costs	NT	NT	NT	A/U
19	Employee morale, health, and welfare costs and credits	A/AC	A	A	A/U
20	Entertainment costs	U	U	U	U
21	Equipment and other capital expenditures	AP/U	AP/U	AP/U	AP
22	Fines and penalties	AP/AC/U	AP/AC/U	AP/AC/U	AC/U
23	Fund-raising and investment management costs	U/A	U	U	U
24	Gains and losses on depreciable assets (See Item 72)	AC	AC	AC	A
25	General government expenses	NT	NT	U	NT
26	Goods/services for personal use	U	U	U	NT
27	Goodwill	NT	NT	NT	U
28	Housing and personal living expenses	U	AP/U	NT	NT
29	Idle facilities and capacity	AC/U	AC/U	AC/U	AC/U
30	Independent research and development	NT	NT	NT	AC

	Cost Item	Circular A-21	Circular A-122	Circular A-87	48 CFR Part 31
31	Insurance and indemnification	AC/U	AC/U	AC/U	A
32	Interest	A/AC/U	A/AC/U	A/AC/U	U
33	Labor relations costs	A	A	NT	AC/U
34	Lobbying (including Executive Lobbying)	U	U	U	U
35	Losses on other sponsored agreements/contracts	U	U	U	U
36	Maintenance and repair costs	A	A	AC	A
37	Manufacturing and repair costs	NT	NT	NT	A
38	Manufacturing and product engineering costs	NT	NT	NT	A
39	Material costs	A	A	A	A
40	Meetings and conferences	A	A	A	See Item 2
41	Memberships, subscriptions, and professional activity costs	A/U	A/AP/U	A/AP/U	NT
42	Organization costs	NT	U/AP	NT	U
43	Other business expense	NT	NT	NT	A
44	Overtime, extra-pay shift, and multi-shift premiums	NT	AP	NT	See Item 14
45	Page charges in professional journals	A	A	AC	NT
46	Participant support costs	NT	AP	NT	NT
47	Patent costs	A/U	A/U	A/U	A/U
48	Plant and homeland security costs	A	A	A	A
49	Pre-award/Pre-agreement	U/AP	AC/AP	AC/AP	AC
50	Professional services costs	AC	AC	AC	A
51	Proposal costs	AC	NT	A	AP
52	Publication and printing costs	A	A	A	NT
53	Rearrangement and alteration costs	A	A	A	NT
54	Reconversion costs	A	A	A	AC/U
55	Recruiting costs	A	A	A	A
56	Relocation costs	NT	AC	NT	A/U
57	Rental costs of buildings and equipment	AC	AC	AC	AC

	Cost Item	Circular A-21	Circular A-122	Circular A-87	48 CFR Part 31
58	Royalties and other costs for use of patents	AC	AC	AC	A
59	Scholarships and student aid costs	A	NT	NT	NT
60	Selling and marketing	AC/U	U	U	A/U
61	Service and warranty costs	NT	NT	NT	A
62	Severance pay	NT	AC/U	AC	AC
63	Special tooling and special test equipment costs	NT	NT	NT	A
64	Specialized service facilities	AC	AC	NT	NT
65	Student activity costs	U	NT	NT	NT
66	Substantial relocation of Federal programs (Related to gains and losses in A-87)	NT	NT	AC	See Item 22
67	Taxes	AC	AC	AC	AC
68	Termination costs	AC	AC	AC	A/U
69	Training and education costs	A	AC/AP/U	A	AC
70	Transportation	A	A	NT	AC
71	Travel costs	AC	AC	AC	AC
72	Trustees	AC	AC	NT	NT
73	Under recovery of costs under Federal agreements	NT	NT	NT	U

SECTION H

Records Retention

(Note: As the terms "grantee," "subgrantee," "recipient," and "subrecipient" tend to be relative terms, for the sake of clarity, this section will use the terms **awarding agency** to describe the entity issuing an agreement for the purchase of services and **contractor** to describe the agency receiving funds to provide those services.)

This section provides guidance for contractors on proper maintenance of financial and program records. These records must be accessible to authorized Federal, State and Local Area staff (where the Local Area is the awarding agency) and must be verifiable for monitoring, reporting, audit and evaluation.

Applicability

For WIA programs, the technical requirements applicable to states and local governmental entities are found in 29 CRF 97.42. The requirements applicable to other nonprofits are found in 29 CFR 95.53.

In both cases, provisions apply to both awarding agencies and contractors. The requirements apply to financial records, supporting documents, statistical records, and all other records pertinent to a grant.

(Although these regulations are federal and are written specifically for WIA programs, the State is adopting them for all programs contracted through the Bureau of Employment Services.)

Length of Retention Period

All records must be retained for three (3) years following the date on which the expenditure report containing the final expenditures charged to a grant is submitted by the State to ***its*** awarding agency.

Example: Local Area 2 closes out its PY01 WIA Formula contract with the BES on October 20, 2002. The State (BES), however, does not close out the PY01 WIA Formula grant with the U.S.DOL until April 14, 2003. The three-year clock begins ticking for all PY01 WIA Formula subcontractors on April 14, 2003.

In all cases, the onus to discover the start date of the three-year records retention period lies with *the contractor*. As a matter of procedure, it would be advisable to consult with the awarding agency and / or the State (BES) before destroying any records related to any contract.

The three-year records retention period may be affected by any **audit** or **litigation** problems. Records must be maintained, then, for a full three years after the closeout date or until any audit or litigation issues are resolved, ***whichever comes later***. Audit or litigation issues do **not** reset the retention clock to zero.

Other Rules

- **Nonexpendable Property Records** must be retained for three years after final disposition of the property.
    - Property records consist of purchase documents, inventory records, and disposition documents. Disallowed costs can result from inadequate documentation and record retention. (29 CFR 95.53)
- **Complaint records** and actions related to resolving complaints must be maintained for not less than three (3) years from the date of resolving the complaint.
    - All records shall be retained beyond the prescribed period if any litigation, investigation, or audit is begun or if a claim is instituted involving the grant or agreement covered by the records. In these instances, the records will be retained until litigation, audit, or claim has been resolved. (29 CFR 95.53 (b)
- Records must be retained beyond the prescribed period in the event of delays or failure to obtain or resolve a required and appropriate **audit**. Failure to obtain an audit extends the record retention requirement indefinitely. A delay in obtaining an audit or in resolving audit findings extends the record retention period until all audit requirements have been satisfied and all findings have been resolved to the satisfaction of the awarding agency.
- **Indirect Cost records**, such as computations or proposals, cost allocation plans, and supporting documentation and records, must be retained for three years from the date the Indirect Cost Rate package is submitted to a cognizant agency for negotiation. If not submitted for negotiation, the records must be maintained for the three-year period specified for grant records.

- **Subrecipients,** The LWIB's must ensure all subrecipients will be required to include record retention procedures in their contractual agreement and must ensure compliance through monitoring. In the event of the termination of the relationship with a subrecipient, the LWIB shall be responsible for the maintenance and retention of the subrecipient records for those unable to retain them.

Custody of Records

The awarding agency may request transfer of records to its custody when it determines that the records possess long-term value. When the records are transferred to or maintained by the awarding agency, the retention requirement does not apply to the entity that relinquished its records.

Record Storage

Records shall be retained and stored in a manner that will preserve their integrity and admissibility as evidence in any audit / litigation or other proceeding. The burden of production and authentication of the records shall be on the custodian of the records.

Microfilmed or photocopied records can be substituted for original records because they are generally accepted as admissible for evidentiary purposes. The BES does not take a position on the use of electronic media for the storage of records, but this should not be construed to mean that they cannot be used. Due to rapid advances in technology, the better approach is to specify the criteria that must be met for whatever medium, including electronic media or other storage mediums, is used for record storage. When choosing media for record retention, the custodian must ensure security safeguards and protections sufficient for the records to be accepted by a court as evidence.

As in any case where a record is maintained, the burden of producing and authenticating it is on the custodian of the record, and failure to authenticate the record will deny the custodian the right to use it for any evidentiary purpose. Thus, if a grantee maintains its participant eligibility records on computer files and is unable to show that the records were secure or were tamperproof, the records cannot be used to prove that participants were eligible for services they receive.

Access to Records

The U.S. DOL, the Bureau of Employment Services (i.e., the State), the awarding agency, or any of their authorized representatives, have the timely and reasonable right to access to pertinent books, documents, papers or other records of contractors to make audits, examinations, excerpts and transcripts. The rights of access are not limited to the required retention period but last as long as the records are retained. (The Director of the Office of Civil Rights has the same rights of access described above per the requirements of 29 CFR Part 37.)

Contractors have the right and responsibility to define conditions for providing access to records, i.e., time and place.

The Freedom of Information Act and Privacy Act (5 U.S.C. 552) do not apply to ETA-funded records in the possession of contractors. The provisions of these Acts apply to contractor records only if they have been transferred to the U.S. Secretary of Labor.

Fees may be charged only to recover the costs of processing information requests.

Discovery Recovery

Occasionally, records are destroyed by fires, vandalism, or natural disasters such as floods, storms and earthquakes. Contractors with record retention responsibility must have a satisfactory plan of record recovery if critical records are lost. An example is off-site storage of computerized / microfilmed records.

Additional Considerations

In implementing record retention policies, contractors must consider Federal, State (BES) and the awarding agency's policies and requirements. Local requirements cannot be less restrictive than the Federal and / or State policies.

SECTION I

PROGRAM INCOME

Definition

For governmental agencies, program income is defined in 29 CFR 97.25(b) as the "gross income received by the grantee or subgrantee directly generated by a grant supported activity, or earned only as a result of the grant agreement during the grant period." 29 CFR part 95.2(bb) includes a similar definition for program income earned by non-governmental agencies.

Examples

The following are items that would be included as program income:

1. Income from fees charged for services
2. Income from the use or rental of personal property acquired with grant funds.
3. Income from the sale of goods constructed under a grant agreement.
4. Revenues received by a governmental or nonprofit organization that are in excess of its costs under a WIA Title I program. See 20 CFR 667.200(a)(6).
5. Interest paid on WIA Title I funds including Adult, Youth, and Dislocated Worker programs. See 20 CFR 667.200(a)(7).

Exclusions

The following are items that would not be included as program income:

1. Reductions to grant costs as a result of refunds, rebates, credits, discounts, or the interest earned on them.
2. Proceeds from the sale of personal property.
3. Income from royalties and license fees for copyrighted material, patents, and inventions developed by a subgrantee. However, DOL policy is that Federal funds may not be used to pay royalties for Federally developed projects or works.
4. Income <u>earned</u> after the end of the award period.
5. Donations and contributions that are voluntarily given (not generated by the use of grant funds) to a subgrantee.

6. Profits earned by commercial for-profit organizations.

7. Funds that are utilized to satisfy the matching requirements of Federal grants.

Accounting for Program Income Revenue

A subrecipient may use either the net income method or the gross income method to account for program income revenue.

Net Income Method

Under this method, the costs incidental to the generation of program income are deducted from gross program income to determine the amount of net program income. The expenditures and revenues associated with the activities that generate program income are identified and accounted for separately in the books of account. Periodically, revenues and expenditures are netted and the net income is then recorded as program income for the appropriate Federal grant.

Gross Income Method

Under this method, all gross revenues derived from activities that generate program income are treated as program income. In the books of account, the entire amount of gross revenues is recorded in the program income account for the funding period. Expenditures associated with generating the revenue are charged to the appropriate program and cost categories. The funding period for revenues should be the same funding period in which the expenditures are charges.

Accounting for Program Income Expenditures

Two different approaches are available to account for program income expenditures. A subrecipient may either account for additional services separately or transfer previously recorded expenses.

Separate Accounting

Under this approach, program income is treated as if it were a separate grant, but with the intention of providing additional services for the same purposes of the original grant under which the program income was earned. The expenditures resulting from the additional services are accounted for separately from the original grant.

Transfer of Expenditures

Under this approach, expenditures, that have been recorded in the accounts of the original grant, are transferred to the program income account in the same amount of income earned.

Uses of Program Income

Program income is to be expended on allowable grant activities for the same purposes of the original award and within the time period of the original award.

SECTION J

AUDITS/AUDIT RESOLUTION

Audit Requirements

All non-Federal entities that expend $500,000 or more of Federal funds (received from all Federal sources combined) in a fiscal year are required to obtain an independent organization-wide financial and compliance audit (single) in accordance with the SAA Amendments and 29 CFR 99.200. However, when an entity expends funds under only one Federal program, the entity may elect to have a program-specific audit in accordance with 29 CFR 99.235. See 29 CFR 99.205 for further guidance on determining Federal awards expended.

Any entity that spends less than $500,000 a year in Federal funds is exempt from the audit requirements, but records must be made available for review or audit by Federal agencies or the pass-through entity, if requested.

Also exempt from the audit requirements is any entity that receives funds exclusively as a vendor regardless of funding amount. See 29 CFR 99.210 for additional explanation of subrecipient versus vendor relationships.

Audit reports are to be submitted within thirty days after receipt of the auditor's report or no later than nine months after the end of the audit period, unless a longer period is agreed to in advance by the cognizant or oversight agency. The reports are submitted to the Federal Audit Clearinghouse. A copy of the reporting package is also to be submitted to the pass-through entity.

Recipients (who may also be subrecipients), whether a State or Local Area, that pass down funds to another subrecipient, must ensure that the entity receiving the funds has an audit conducted if the entity meets the $500,000 expenditure threshold. The grantor agency is also responsible for ensuring that findings are resolved within six months of receipt of the audit report.

To ensure these timelines are met, the LWIBs and their subrecipients will be required to submit to the state letters of engagement from an independent auditing firm within one month after the end of their respective fiscal years. The letter of engagement must include a start date and anticipated completion date.

Failure to meet the timelines for the submission of either the letters of engagement or the required audit will result in one of the following (OMB Circular A-133) sanctions:

- Withholding a percentage of Federal awards until the audit is completed satisfactorily;

- Withholding or disallowing overhead costs;
- Suspending Federal awards until the audit is conducted; or
- Terminating the award.

Audit/Audit Report

For ETA-funded entities subject to audit requirements, the only type of audit report that is acceptable is the single audit unless the entity receives funds under only one Federal program.

The audit must be conducted in accordance with Government Auditing Standards. The auditor must: (1) audit and provide opinions on the fair presentation of the financial statements and the schedule of expenditures of Federal awards; (2) gain an understanding of internal control over Federal programs and test internal control major programs; and (3) audit and provide an opinion on compliance with requirements for major programs.

The single audit report includes:

- The entity's financial statements
- The schedule of expenditures of Federal awards
- The auditor's opinions on the fair presentation of the financial statements and schedule of expenditures of Federal awards
- The auditor's report on internal control and compliance pertaining to financial reporting
- The auditor's report on internal control and opinion on compliance pertaining to major programs
- The auditor's schedule of findings and questioned costs
- The auditee's corrective action plans
- A summary schedule of prior audit findings which include planned and completed corrective actions

Auditee (Grantee/Subgrantee) Responsibilities

Under the provisions of 29 CFR 99.300, following are the primary responsibilities of the auditee:

- Account for Federal funds received and expended by individual award. This should include the Federal program and award identification.
- Maintain internal control over Federal programs.
- Comply with the laws and regulations of each Federal program.
- Prepare financial statements and a Schedule of Expenditures of Federal Awards.
- Ensure that audits required are properly performed and submitted on time.
- Follow up and prepare a corrective action that addresses each audit finding. Also include a summary schedule of prior audit findings per requirement of 29 CFR 99.315(b).

See 29 CFR 99.305 for guidelines on selection of auditors.

If the final audit report contains findings, the LWIB will have thirty (30) days after receipt of the final report to submit a corrective action plan to the State. Auditors must retain working papers in accordance with Federal and State record retention requirements.

The auditor must assure that working papers will be available for examination by authorized representatives of the State of Maine, federal oversight agencies, and the entity audited.

The audit report may include findings (if applicable), recommendations, questioned costs, corrective actions and time frames for resolution. Adverse findings may be established in the State or internal monitoring process as well as in independent audits.

The notice of audits conducted or arranged by the Office of the Inspector General or the Comptroller General will be provided in advance.

RESOLUTION OF AUDIT FINDINGS:

A. <u>Written procedures</u>:

Local Workforce Investment Boards (LWIBs) must have written procedures for resolving subrecipient audit findings. These procedures must include, but are not limited to, the following elements:

1. Audit Resolution Plan that includes corrective action steps and timetable for completion.

2. An initial determination, if necessary, which states:

    a. All costs questioned or recommended for disallowance and administrative findings;

    b. Whether these costs are allowed or disallowed and the reasons for such actions;

    c. Acceptance or rejection of any corrective action taken to date including corrective action on administrative findings;

    d. Statement of possible sanctions;

    e. An offer for informal resolution of at least 60 days from issuance of the initial determination;

3. An informal resolution period in which a subrecipient may present documentation to support allowability of costs;

4. A final determination, which states:

    a. Matters discussed during informal resolution and the results of the discussion;

    b. A summation of the costs allowed and disallowed and acceptability of corrective action on administrative findings with reasons for any changes from the initial determination;

    c. Establishment of a debt, if appropriate;

    d. Time by which debt must be repaid and when debts become delinquent;

    e. Whether or not interest will be charged and the interest rate;

    f. Any other required corrective actions and time frames by which they will be accomplished;

    g. Statement of possible sanctions;

    h. Procedures by which subrecipient may appeal to the State a decision of the entity making the determinations.

Time frames must be established for each step in the process and will be a part of the written audit resolution procedures. Total time for the resolution of an audit finding may not exceed 90 days from receipt of the final audit report of the subrecipient. Initial and final determinations will be mailed "Certified - Return Receipt Requested" to the State. Time frames established must be within the limits established in this policy.

B. State Review of LWIB Resolution of Subrecipient Audit Findings:

Local Boards are responsible for resolving adverse audit findings of its subrecipients in accordance with Audit, Audit Resolution, Sanctions and Debt Collection Procedures. A copy of the audit resolution plan, which includes audit findings, resolution of questioned costs, costs recommended for disallowance, and adminis-trative findings must be sent to the State no later than thirty (30) days from the receipt of the final audit report from the audit firm.

Any requests for waivers of imposition of sanctions or of costs improperly incurred by subrecipients must be submitted to the State with supporting documentation no later than thirty (30) days after the issue of the final audit report [20 CFR 667.720 "The recipient requests such a waiver and provides documentation to demonstrate that it has substantially complied with the requirements of section 184(d)(2) of the Act, and this section." and TAG II-13-4 and 5 "If the waiver request is made during the ETA audit resolution period, it must be made during informal resolution. If the waiver request relates to a debt established during the grantee's resolution process, then a copy of the audit resolution document(s) or a resolution report must accompany the request."].

When the State receives the resolution package from the Local Board, a letter will be sent within thirty (30) days indicating whether the documentation is sufficient for resolution and whether the request for waiver of imposition of sanctions is:

1. Approved and forwarded to the USDOL Grant Officer;

2. Disapproved and the reasons therefore; or

3. Pending until further documentation can be obtained to support the waiver request.

Note: When the State disapproves the resolution by the LWIB, procedures outlined in paragraphs IV.C. will be followed.

C. STATE RESOLUTION PROCESS

The resolution process described below is patterned after the Initial and Final Determination process used at the Federal level. Specific guidelines are found at 29 CFR 96.53 and for WIA programs at CFR 667.510.

Comment Period

The State will complete a review of each audit within 45 days of receipt. After review of an audit report that contains questioned costs or administrative findings, the State will send the subrecipient a request for additional comments or explanation. The subrecipient will have 15 days to respond. This information will be used in preparing the Initial Determination.

Initial Determination

The Initial Determination is a preliminary decision on whether to allow or disallow questioned costs and resolve administrative findings. To the extent possible, an Initial Determination will be issued within 90 days of receipt of the audit from the subrecipient.

A questioned cost will be disallowed if the basis is a clear violation of applicable laws and regulations. In addition, costs not supported by source documentation may be disallowed.

Administrative findings will require corrective action of the deficiency. If the corrective action has already taken place at this point, the manner in which the finding was resolved will be indicated. If future corrective action is still necessary, the specific action required will be indicated, including date of completion. Progress reports will be required to be provided by the subrecipient.

For findings considered serious, sanctions and remedial actions that may be taken against the subrecipient for deficiencies not corrected will be included.

Informal Resolution

The informal resolution period may last 60 days and commences on the date of the issuance of the initial determination.

During this period, the subrecipient has an opportunity to present documentation or arguments to resolve informally those matters in controversy contained in the initial determination. Possible resolution includes the acceptance of such documentation or arguments, subrecipient agreeing to corrective action, or the re-payment of a questioned cost.

Final Determination

The Final Determination will be sent to the subrecipient within 30 days of the end of the informal resolution period.

The Final Determination will:

- Reference the Initial Determination
- Include the State's final decision to disallow any costs, listing each specifically and noting the reason for disallowance
- Identify the questioned costs that will be allowed and the basis for such allowance
- Demand repayment of disallowed costs
- Describe debt collection actions or other sanctions if repayment is not made
- Inform the subrecipient of its right to appeal
- Restate the status of each administrative finding
- List those matters upon which the parties continue to disagree

When a cost is disallowed at this point, a debt is established. However, if the subrecipient appeals, no further collection action will be taken, pending the outcome of the appeal.

Stand-In Costs

The State will accept stand-in costs as a substitute for disallowed costs in audit resolution. Stand-in costs must meet the following criteria:

- Must be allowable costs that were actually incurred for the benefit of the ETA-funded program and paid by a non-ETA and non-Federal fund source
- Must have been included within the scope of the subrecipient's single audit and included in the financial statements
- Must have been accounted for in the subrecipient's financial system
- Must come from the same year as the costs they are proposed to replace
- Must not cause a violation of administrative or other cost limitations
- Must be from the same entity that incurred the disallowed costs

- Must not be to substitute for disallowed costs caused as a result of fraud

D. **Debt Establishment/Collection:**

1. A debt will be established for disallowed costs included in the final determination. All questioned costs or costs recommended for disallowances that have not been resolved in the final determination will become disallowed costs.

2. Interest may be charged on debts established for disallowed costs. Interest may be charged from the day the debt becomes delinquent. The interest rate will be the current rate the State receives on its 90-day U. S. Treasury Bill Investment. After 90 days, if the debt is not resolved without good cause, a penalty fee of 5 percent of the debt and interest due will be included and added to the debt.

E. Appeals process:

1. In a contested case, all parties must be afforded an opportunity for hearing after reasonable notice.

2. The notice must include:

(a) A statement of the time, place and nature of the hearing.

(b) A statement of the legal authority and jurisdiction under which the hearing is to be held.

(c) A reference to the particular sections of the statutes and regulations involved.

(d) A short and plain statement of the matters asserted. If the agency or other party is unable to state the matters in detail at the time the notice is served, the initial notice may be limited to a statement of the issues involved. Thereafter, upon application, a more definite and detailed statement must be furnished.

3. Any party is entitled to be represented by counsel.

4. Opportunity must be afforded all parties to respond and present evidence and argument on all issues involved. An agency may by regulation authorize the payment of fees and reimbursement for mileage to witnesses in the same amounts and under the same conditions as for witnesses in the courts of this state.

5. Unless precluded by law, informal disposition may be made of any contested case by stipulation, agreed settlement, consent order or default. If an informal disposition

is made, the parties may waive the requirement for findings of fact and conclusions of law.

6. The record in a contested case must include:

   (a) All pleadings, motions and intermediate rulings.

   (b) Evidence received or considered.

   (c) A statement of matters officially noticed.

   (d) Questions and offers of proof and objections, and rulings thereon.

   (e) Proposed findings and exceptions.

   (f) Any decision, opinion or report by the hearing officer presiding at the hearing.

7. Oral proceedings, or any part thereof, must be transcribed on request of any party.

8. Findings of fact must be based exclusively on substantial evidence and on matters officially noticed.

SECTION K

PROCUREMENT

Introduction

The following presents a discussion of the various methods available for procurement, development of procurement policies and procedures, and discusses additional requirements that may apply.

There are Federal, State and often, local guidelines that govern agency procurement activities for goods and services. ***It is important to note that in any given procurement situation, the most stringent of the three guidelines will apply.***

Background

The WIA Final Rule, Title 20 CFR Section 667.200, provides fiscal and administrative guidance for the administration of the WIA program, including specific requirements for purchasing property. This guidance includes direction and referral to Title 29 CFR Part 95 for institutions of higher education, hospitals and other non profit and commercial organizations, and to Title 29 CFR Part 97 for states and local governments. While the format and wording of Part 95 and Part 97 vary slightly, the intent is to ensure that purchases and changes to the disposition of property are per applicable guidelines, performed through fair and open competition and managed according to proper inventory, maintenance, and disposition procedures.

Contractors of the Bureau of Employment Services (BES), the "Grantee" or "Department" include subgrantees/providers and other miscellaneous vendors. For the purposes of this section, subgrantees/providers are most often defined as the Local Area Workforce Investment Boards and Service Providers.

Typically, the Local Areas contract directly with the Service Providers in their jurisdiction although occasionally, the BES contracts directly with Service Providers.

DEFINITIONS:

A. *REQUEST FOR PROPOSAL* - Means a document listing the scope of work, requirements of the recipient and all evaluation criteria for a service needed by the recipient. This document is also known by the initials "RFP".

B. *CONTRACT* - Means the agreement between a recipient and subgrantee, describing the service to be performed, the terms and conditions agreed to by the parties, the cost of the service and how payment will be made.

C. *GRANT* - Means an agreement between a group organization or other recipient and the subgrantee which describes terms and conditions and scope of performance or action which is expected of the recipient and subgrantee.

D. *Equipment* – tangible, nonexpendable personal property having a useful life of more than one year and an acquisition cost of $5,000 or more per unit, including all costs related to the property's final intended use.

E. *Information Technology* – computer hardware and software. Purchase is only allowable when such computer technology is "Year 2000 compliant" (Title 20 CFR 667.200(c)(7)).

F. *Intellectual Property* – recognized protectable rights and interest such as: patents, copyrights, trademarks, service marks, etc. Also referred to as intangible property.

G. *Property* – durable goods, equipment, buildings, installations and land.

Required Standards

The following standards must be maintained by the subgrantees in order to meet Federal and State requirements:

1. Maintenance of a contract administration system that ensures subcontractors perform in accordance with the requirements of any awards.

2. A written code of conduct for employees engaged in the award and administration of agreements. This code of conduct must include the standards of conduct specified at 20 CFR 667.200 (a)(4), which addresses conflict of interest for local area grantee board members.

3. Procedures that detail the requirement for a review of prospective procurements to avoid purchase of unnecessary or duplicate items, including analysis of lease vs. purchase.

4. A process that promotes the use of intergovernmental agreements for procurement or use of common goods and services, as well as the use of Federal excess and surplus property wherever possible.

5. A process to ensure that awards are made only to responsible vendors with the ability to perform successfully. The awarding agency may include standards such as integrity, compliance with public policy, past performance, and vendor resources, both technical and financial.

6. Documentation of each of the significant steps followed in making an award. These must include rationale for selection, selection of agreement type, selection or rejection criteria, and the basis for the contract price, including the independent agency estimate of price.

7. A settlement process. Subgrantees are solely responsible for the settlement of all procurement issues, including those related to source evaluation, protests, claims, and disputes. Violations of law must be referred to the appropriate local, State or Federal Authority.

8. Protest procedures to handle disputes related to procurement. Protest procedures must include available remedies. All of the information related to protests must be disclosed to the Grantee. Protestors must exhaust all subgrantee administrative remedies before pursuing a protest with the BES.

Procurement Methods

All procurement actions are to be conducted in a manner that is consistent with Title 29 Sec. 97.36 and provides for ***"full and open competition."*** Within the context of open competition, there are four methods by which agencies may procure goods or services.

1. Small Purchases

   This is a relatively informal method used primarily to procure goods (supplies and equipment). If small purchase procedures are used, price or rate comparisons from an adequate number of sources must be obtained. This method is appropriate only when price is the overriding factor and may be easily quoted and compared, delivery is standardized, and performance outcomes are not dependent upon the content of the goods being procured. While the Federal threshold for small purchase is currently $100,000 and the State threshold is $5,000, the locally imposed threshold may be substantially smaller and contractors must adhere to the lowest of the three.

   Example: The agency has a need for fax machines. It compares the prices at three different sources and makes a selection based on lowest price.

2. Sealed Bids (Invitation for Bid, IFB)

   Under sealed bid procedures, bids are publicly solicited and the procurement is awarded to the lowest responsible bidder, resulting in a fixed-price (either lump sum or unit price) contract. In order for this process to be feasible, three conditions must be met: a) complete and realistic specification of required goods or services is available and part of the solicitation; b) there are at least two bidders; and c) the procurement may be made principally on the basis of price. The requirements for use of sealed bids are specific:

   - The IFB is publicly advertised and bids are solicited from an adequate (more than two) number of known suppliers;

- The IFB contains all pertinent specifications and defines the items or services to be procured in sufficient detail for a response;
- All bids are publicly opened;
- A firm fixed-price contract is awarded to the lowest and most responsive bidder; and
- Any or all bids may be rejected if there is a documented reason.

Example: The organization is looking to procure computer hardware, including printers and peripheral hardware. The exact specifications for the computer hardware, including numbers and required capacity, are contained in the IFB, published in the local newspaper and sent to prospective suppliers. The award is a fixed-price contract to the lowest bidder.

3. Competitive Proposals (Requests for Proposals, RFP)

REQUEST FOR PROPOSAL PROCEDURE

A. All contracts issued which do not qualify as sole source or emergency procurements must be competitively bid using the Request for Proposal.

   i. The request for proposal must contain at a minimum a clear definition (scope) of the project, the evaluation criteria and relative scoring weights to be applied, the proposal opening date and time, and subgrantee contact person.

      a. Cost of the contract must be included in the evaluation criteria and must receive a minimum of 25% of the total weight of all criteria.

      b. All proposals shall be made available to the public upon request. Proposals received by the subgrantee after the advertised opening time shall be rejected, unless the advertised opening date and time have been extended by the subgrantee due to circumstances requiring such an extension of time.

   ii. Request for proposals must be submitted to the subgrantee for review prior to release. Review includes, but is not limited to appropriateness of scope and clearly defined evaluation criteria with cost at a minimum of 25%.

   iii. Request for proposals must be advertised for a minimum of three consecutive days in the local newspaper, allowing a minimum of fifteen (15) calendar days from the final day of advertising to the proposal opening date. This section does not limit advertising in any other publication, trade publication or other media.

a. Advertisements must include at a minimum a brief description of the service requirements of the subgrantee, the name of the subgrantee issuing the RFP, the name of the contact person and address where copies of the RFP can be obtained, the opening date, the opening time and the opening location.

iv. Pre-Bidders conferences are allowed, but are not required. These conferences are used to be certain that all bidders have an equal understanding of the subgrantee requirements.

a. Pre-Bidders conferences must be advertised within the RFP advertisement, including location, day and time. Conference must be scheduled a minimum of seven (7) calendar days from the final day of advertising and minimum of two weeks prior to proposal opening date. The subgrantee may authorize a pre-bidders conference on shorter notice than has not been advertised in the RFP. The contracting recipient shall notify all prospective bidders who requested the RFP of the date and time of the conference under these circumstances.

b. Conferences must be open to the public, questions raised must be documented in writing and responses must be written and forwarded to each prospective bidder who received an RFP, whether in attendance or not.

c. No alterations or changes to any requirement or specification within the original RFP can be made without notifying all bidders in writing a minimum of seven (7) calendar days before opening date.

v. Proposals shall be opened publicly at the main headquarters of the subgrantee or a nearby appropriate facility at the discretion of the subgrantee. The opening of proposals shall be open to public attendance. The name of the respondent will be read aloud. No other information will be made available prior to evaluation and award notification. All proposals shall be sequestered from this time until notification of award by the subgrantee after which time they become public record.

Proposals received by the subgrantee later than the date and time specified will not be accepted and will be returned unopened or held at the headquarters of the recipient to be picked up by the respondent. Late proposals not picked up within seven (7) calendar days will be destroyed.

vi. A written record of the vendor names, date and time received, cost/price and subgrantee representative shall be kept at the headquarters of the subgrantee.

AWARD

A. The subgrantee is responsible for reviewing all RFP's based on the criteria established within the original Request for Proposal document. The subgrantee shall document the scoring, substantive information that supports the scoring, and make the award decision.

   i. Interviews/Presentations: Interviews and/or presentation may be considered within the review for information and scoring, if that provision was included within the original RFP documentation.

   ii. Pricing/Negotiations: Pricing changes, alterations or negotiations are not allowed prior to the award decision and must not be used in scoring. Minor negotiations after notice of award are allowed and if agreement cannot be reached, the proposal may be rejected and the award made to the next highest rated bidder who was in compliance with all terms, conditions and requirements.

   iii. Documentation: Written records must be kept by each person reviewing or ranking proposals. These records must be made available upon request.

   iv. Award: Award must be made to the highest rated proposal which conforms to the requirements of the state as contained in the RFP.

   v. Proposed Award Decision Notification: subgrantee must notify all bidders responding to an RFP of the award decision in writing, postmarked or delivered a minimum of fourteen (14) calendar days prior to contract effective date.

4. Non-Competitive Proposals (Sole Source)

This method is the solicitation of a proposal from a single source, or, after solicitation of more than one source, competition is determined inadequate to fulfill the requirements of the funding agency. If this method is used, the following requirements apply:

- The award is infeasible under one of the methods discussed above, *and* one of the following apply:

  - The item is available from only one source;
  - Public emergency precludes delay (for example, a flood at the local day care center requires acquisition of additional services);
  - The awarding agency authorizes the specific non-competitive procurement (upon a formal request for approval); or
  - Competition is determined inadequate. This usually occurs after a competitive process has been used and there are insufficient bidders.

- A cost analysis is required. This entails verification of the proposed cost data and evaluation of the specific elements of costs and profits, including comparison with the agency's prior independent price estimate. Profit must be separately negotiated in the award, and cost plus a percentage of cost agreements are not allowable.

Subgrantees may be required to submit the proposed non-competitive procurement to their awarding (contracting) agency for approval.

Non-competitive procurements are allowable (under 29 CRF 97.36) but they are to be considered a "last resort" option and used only when there is a documented reason for sole source selection. Therefore, contractors should ensure that the competitive process is open and fair. They must exercise considerable caution when using non-competitive procurements.

Example: A local board solicits proposals for the provision of certain core services through a satellite CareerCenter in a very rural area and only one bid is received. Rather than change the specifications and reissue the RFP, the organization may enter into an agreement with the single bidder. Documentation to support the decision will be required, i.e., a cost analysis and a determination by the awarding agency that the proposal will meet a critical need for services in the community. If required by the awarding agency, such an agreement would have to be approved by the awarding agency prior to execution.

Additional Guidelines:

- Each contractor must maintain written standards of conduct, including conflict of interest provisions and disciplinary actions for violations. The conflict of interest standards must address the requirements of 29 CFR 667.200(a)(4) related to local board (LWIB) members.
- Each contractor must maintain a system that provides for open and full competition whenever practicable and possible. Awards should be based on the most responsive bid or offer and the one most advantageous to the recipient after considerations of price, quality and any other factors contained in the solicitation.
- Each contractor must establish written procurement procedures that provide for:
  - No purchases of unnecessary items; and
  - An analysis of lease vs. purchase options to determine the most "economical and practical" procurement.
- All solicitations must provide for the following:
  - Clear and accurate descriptions of the goods or services being procured. The description must not contain features that restrict competition;
  - All requirements that must be fulfilled and all other factors used in evaluating bids or proposals;

- Technical requirements described in terms of functions to be performed or performance required, including a range of acceptable or minimally acceptable standards;
- Specific features of "brand-name or equal" descriptions, if included in the solicitation;
- If procuring goods or certain types of services, the acceptability of metric measurements; and
- Preference for ecologically sound and energy-efficient products.

Contractors are also responsible for the resolution of all contractual and administrative issues arising out of the procurements unless the issues concern violations of statute. Those matters are to be referred to the proper Federal, State or local authority as may have jurisdiction.

In addition, recipient / grantee procurement practices should encourage the utilization of small businesses, minority-owned firms, and women's business enterprises whenever possible.

In instances where a purchase is to acquire property costing $5,000 or more, the following guidelines must be adhered to:

Purchase Considerations:

In order to satisfy Federal and State procurement requirements, the following considerations must be made prior to requesting approval to direct charge WIA funds for the purchase of property with a peer unit cost of $5,000 or more, the following steps will occur:

- Is this purchase necessary and reasonable?
- Why is the purchase needed?
- Have the best products been selected?
- What procurement method will be used?
- Was a lease option considered in lieu of the purchase?
- What other costs are associated with the purchase?
- Is there a cost sharing agreement if multiple partners will share the cost of purchase? See "Cost Sharing Information" section if costs are being shared.

Prior Approval Procedures:

1. Subgrantees must complete a "Request for Prior Approval to Charge WIA Funds for the Cost of Property" form (attached to this directive).

2. The completed form must be submitted to the Director of the Bureau of Employment Services (BES).

3. The BES Director will review the request and will approve or disapprove. The BES Director will approve/disapprove the property purchase request in writing within 10 days of the receipt of the request.

4. A disapproved decision will be forwarded to the Commissioner of the Department of Labor for review. If the Commissioner approves the request, an approval letter will be issued and WIA funds may be charged for the purchase. If the Commissioner disapproves the request a letter will be issued with an explanation as to why. If WIA funds are charged for a disapproved purchase request, the subgrantee will incur a disallowed cost.

Budget Plans:

An entity may submit budget plans that include an equipment request. The approval of the budget plan DOES NOT constitute approval of the equipment request. A separate request to purchase equipment must be submitted for approval by the state at the time of purchase.

Cost Sharing Information:

When an entity plans to enter into a "cost sharing" agreement for the purchase of property with a per unit purchase price of $5,000 or more, the entity must obtain prior approval no matter the portion they plan to contribute. This is based upon direct guidance from the United State Department of Labor.

Leasing Considerations:

The decision to lease or buy personal property must be governed by cost/benefit considerations. Consideration may differ by property type and according to market conditions. The length of the contract period of the lease should also be considered. Leasing with an option to purchase is preferable to straight leasing. For real property, administrative requirements in OMB Circular A-94 make leasing the only option, as the construction or purchase of real property is not allowed under the WIA program except in certain limited circumstances. These circumstances are described in the "Capital Assets and Construction Costs" section of this directive.

Capital Assets and Construction Costs:

WIA Title I funds cannot be spent on construction or purchase of facilities or buildings except under the following condition after obtaining prior approval regardless of the dollar amount:

- To provide physical and programmatic accessibility and reasonable accommodations as required by the Rehabilitation Act of 1973 and the Americans with Disabilities Act of 1990.

Inventory Records:

Subgrantees must maintain accurate inventory records of all equipment purchased with federal funds. All equipment should have a unique identification mark to be used for inventory purposes. A physical property inventory must be taken and reconciled with the property records at least once every two years.

The equipment records must include at a minimum the following:

1. A description of the equipment.
2. Manufacturer's serial number, model number, Federal Stock number, national stock number or other identification number
3. Source of the equipment, including the award number and vendor purchased from
4. Whether title vests in the recipient or the federal government.
5. Acquisition date (or date received, if the equipment was furnished by the federal government).
6. Per unit cost at acquisition
7. Records showing maintenance procedures to keep the equipment in good operating order.

Disposition of Equipment (Governmental Agencies):

For equipment with a residual fair market value of $5,000 or less, recipients of WIA funds may retain, sell or dispose of equipment with no further obligation to the awarding agency.

For equipment with a residual fair market value of $5,000 or more, recipients of WIA funds must use the following guidelines (Title 29 CFR Part 97.32):

The recipient may use the equipment in the program or project for which it was acquired, as long as needed, whether or not the project or program continues to be supported by federal funds.

If the equipment is no longer needed by the original program/project, the equipment may be used in other activities currently or previously supported by a federal agency.

If the equipment is no longer needed by the program/project or for other activities currently or previously supported by a federal agency, the recipient may retain or sell

the equipment and reimburse the state for the federal share of the equipment. The compensation due to the state is determined by multiplying the current fair market value or proceeds from the sale by the percent of WIA federal funds used in the equipment purchase. If only WIA federal funds were used for the purchase then the percentage would be 100 percent. If both WIA federal and local funds were used in the purchase then use the WIA federal funds percentage for the calculation. Actual and reasonable selling and handling expenses ($500 or 10 percent of the proceeds of the sale, whichever is less) may be deducted from the proceeds of the sale. The balance of WIA federal funds must be submitted within 30 days to the Security & Employment Service Center. The name of the entity, subgrant number, year of appropriation, and funding stream must be provided when submitting the funds. These returned funds will be sent to the federal government once the state receives the funds.

CALCULATION OF "FAIR MARKET" VALUE:

The selling price of an item that is sold through auction, advertisement, or a dealer is the fair market value of the item regardless of any prior estimates. An item that is not sold but retained by the entity has a fair market value based on similar items that are offered for sale, using the selling price if known. Methods for determining fair market value include, but are not limited to:

Auctions
Classified advertisements for similar used items
Dealers
Licensed appraisers

For automobiles, trucks, and vans, the standard authority on the value of used vehicles is the Kelley Blue Book.

PROPERTY RECORDS RETENTION:

All property records must be maintained from date of acquisition, through final disposition. Subgrantees must also retain those records for a period of three years from the date of their last expenditure report submitted to the Security & Employment Service Center. If any litigation, claim, or audit is started before the expiration of the three-year period, all records must be retained until all findings have been resolved and final action taken.

SECTION L

PROPERTY MANAGEMENT

Purpose:

This directive provides guidelines for obtaining the State's approval prior to charging Workforce Investment Act (WIA) grant funds for purchases of property with a per unit acquisition cost of $5,000 or more. In addition, guidelines related to the inventory and disposal of property for governmental and nonprofit agencies are also described in this directive.

Scope:

The requirements in this directive apply to all subrecipients and their subrecipients who plan to purchase property with an acquisition cost of $5,000 or more per unit, and charge any of the cost to the WIA grant funds. Also included in these requirements are guidelines for subrecipients and their subrecipients that want to dispose of property originally charged to a federal grant.

REFERENCES:

Title 20 Code of Federal Regulations (CFR), WIA Final Rule, Section 667.260
Title 29 CFR Part 95, Sections 95.34, 95.40 through 95.48 and 95.53
Title 29 CFR Part 97, Sections 97.32, 97.36 and 97.42
Office of Management and Budget (OMB) Circular A-21, Cost Principles for
Educational Institutions
OMB Circular A-87, Cost Principles for State, Local and Indian Tribal Governments
OMB Circular A-122, Cost Principles for Non-Profit Organizations
One-Stop Comprehensive Financial Management Technical Assistance Guide
(Department of Labor – July 2002)

BACKGROUND:

The WIA Final Rule, Title 20 CFR Section 667.200, provides fiscal and administrative guidance for the administration of the WIA program, including specific requirements for purchasing property. This guidance includes direction and referral to Title 29 CFR Part 95 for institutions of higher education, hospitals and other nonprofit and commercial organizations, and to Title 29 CFR Part 97 for states and local governments. While the format and wording of Part 95 and Part 97 vary slightly, the intent is to ensure that purchases of property are

approved, performed through fair and open competition, and managed according to proper inventory, maintenance, and disposition procedures.

DEFINITIONS:

Equipment—tangible, nonexpendable personal property having a useful life of more than one year and an acquisition cost of $5,000 or more per unit, including all costs related to the property's final intended use.

Information Technology—computer hardware and software. Purchase is only allowable when such computer technology is "Year 2000 compliant" (Title 20 CFR 667.200(c)(7)).

Intellectual Property—recognized protectable rights and interest such as: patents, copyrights, trademarks, service marks, etc. Also referred to as intangible property.

Property—durable goods, equipment, buildings, installations, and land.

PURCHASE CONSIDERATIONS:

In order to satisfy federal and State procurement requirements the following considerations must be made prior to requesting approval to direct charge WIA funds for the purchase of property with a per unit cost of $5,000 or more. These considerations are also on the approval form attached to this directive.

Is this purchase necessary and reasonable?
Why is the purchase needed?
Have the best products been selected?
What procurement method will be used?
Was a lease option considered in lieu of the purchase?
What other costs are associated with the purchase?
Is there a cost sharing agreement if multiple partners will share the cost of purchase? See "Cost Sharing Information" section if costs are being shared.

PROCEDURES – Prior Approval Process:

To direct charge the WIA funds account for any property purchase (including software purchases) with a per unit cost of $5,000 or more, the following steps will occur:

1. Subrecipients must complete a "Request for Approval to Charge WIA Funds for the Cost of Property" form (attached to this directive).

2. The completed form must be submitted to the Director of Bureau of Employment Services (BES)

3. The Department director or designee will review the form and either approve or disapprove the request.

4. The Director of BES will approve/disapprove the property purchase request in writing within 10 days of the receipt of the request.

5. If the request is denied by the BES Director that the decision will be forwarded to the Commissioner for review. If an approval letter is issued, the WIA funds account may be charged for the purchase. A letter not approving a request for purchase will specify the reason for the disapproval. If the request is not approved and property is charged, the subrecipient may incur a disallowed cost.

BUDGET PLANS:

An entity may submit budget plans that include an equipment request. The approval of the budget plan DOES NOT constitute approval of the equipment request. A separate request to purchase equipment must be submitted for approval by the state at time of purchase.

COST SHARING INFORMATION:

When an entity plans to enter into a "cost sharing" agreement for the purchase of property with a per unit purchase price of $5,000 or more, they must obtain prior approval no matter the portion they plan to contribute. This is based upon direct guidance from the Department of Labor (DOL).

LEASING CONSIDERATIONS:

The decision to lease or buy personal property must be governed by "considerations of economy" (also known as cost benefit consideration). Consideration may differ by property type and according to market conditions. The length of the contract period of the lease should also be considered. Leasing with an option to purchase is generally preferable to straight leasing. However, for real property, administrative requirements make leasing the only option, as the construction or purchase of real property is not allowed under the WIA program exception certain limited circumstances as outlined in OMB Circular A-87. These limited circumstances are described in the "Capital Assets and Construction Costs" section of this directive.

CAPITAL ASSETS AND CONSTRUCTION COSTS:

The WIA Title I funds cannot or will not be spent on construction or purchase of facilities or buildings except under the following conditions after obtaining prior approval regardless of the dollar amount:

To provide physical and programmatic accessibility and reasonable accommodation as required by the Rehabilitation Act of 1973 and the Americans with Disabilities Act of 1990.

To fund repairs, renovations, alterations and capital improvements of property including:

1. State Employment Security Agency real property, identified at WIA Section 193, using a formula that assesses costs proportionate to space utilized.

2. Job Training Partnership Act owned property, which is, transferred to WIA Title I programs.

Job Corps facilities, as authorized by WIA Section 160(3)(B).

To fund disaster relief employment on projects for demolition, cleaning, repair, renovation, and reconstruction of damaged and destroyed structures, facilities, and lands located within a disaster area.

INVENTORY RECORDS:

Subrecipients must maintain accurate inventory records of all equipment purchased with federal funds. All equipment should have a unique identification mark to be used for inventory purposes. A physical property inventory must be taken and reconciled with the property records at least once every two years.

The equipment records shall include the following information:

1. A description of the equipment.

2. Manufacturer's serial number, model number, Federal Stock number, national stock number, or other identification number.

3. Source of the equipment, including the award number.

4. Whether title vests in the recipient or the federal government.

5. Acquisition date (or date received, if the equipment was furnished by the federal government).

6. Per unit cost at acquisition.

7. Records showing maintenance procedures to keep the equipment in good operating order.

8. Location and condition of the equipment and the date the information was reported.

9. Disposition date, sale price, loss, theft, etc.

DISPOSITION OF EQUIPMENT (GOVERNMENTAL AGENCIES):

For equipment with a residual fair market value of $5,000 or more, recipients of WIA funds must use the following guidelines (Title 29 CFR Part 97.32):

The recipient may use the equipment in the program or project for which it was acquired as long as needed, whether or not the project or program continues to be supported by federal funds.

If the equipment is no longer needed by the original program/project, the equipment may be used in other activities currently or previously supported by a federal agency.

If the equipment is no longer needed by the program/project or for other activities currently or previously supported by a federal agency, the recipient may retain or sell the equipment and reimburse the state for the federal share of the equipment. The compensation due to the state is determined by multiplying the current fair market value or proceeds from the sale by the percent of WIA federal funds used in the equipment purchase. If only WIA federal funds were used for the purchase then the percentage would be 100 percent. If both WIA federal and local funds were used in the purchase then use the WIA federal funds percentage for the calculation. Actual and reasonable selling and handling expenses ($500 or 10 percent of the proceeds of the sale, whichever is less) may be deducted from the proceeds of the sale. The balance of WIA federal funds must be submitted within 30 days to the Security & Employment Service Center. The name of the entity, subgrant number, year of appropriation, and funding stream must be provided when submitting the funds. These returned funds will be sent to the federal government once the state receives the funds.

CALCULATION OF "FAIR MARKET" VALUE:

The selling price of an item that is sold through auction, advertisement, or a dealer is the fair market value of the item regardless of any prior estimates. An item that is not sold but retained by the entity has a fair market value based on

similar items that are offered for sale, using the selling price if known. Methods for determining fair market value include, but are not limited to:

Auctions
Classified advertisements for similar used items
Dealers
Licensed appraisers

For automobiles, trucks, and vans, the standard authority on the value of used vehicles is the Kelley Blue Book.

PROPERTY RECORDS RETENTION:

All property records must be maintained from date of acquisition, through final disposition. Subrecipients must also retain those records for a period of three years from the date of their last expenditure report submitted to the Security & Employment Service Center. If any litigation, claim, or audit is started before the expiration of the three-year period, all records must be retained until all findings have been resolved and final action taken.

SECTION M

SUBGRANTEE MONITORING

The grantee must comply with the following provisions for subgrantee monitoring:

1. Monitoring Plan Requirements: The grantee shall develop a monitoring plan that addresses the scope, frequency, and subgrantee performance standards. This monitoring plan must be included in the grant plan (this must be submitted to BES annually).

2. Grantee General Requirements: The grantee must conduct annual on-site monitoring of subgrantee program, financial, compliance, nondiscrimination and EEO to ensure that all terms of their agreement and the appropriate laws and regulations are complied with. The grantee must also ensure that all subgrantees conduct onsite monitoring of all work/educational sites to ensure that program objectives have been met.

3. Compliance Monitoring: The grantee must monitor the performance of its contractors and subgrantees to ensure compliance with appropriate laws, regulations, MDOL policy, and the terms and conditions of the agreement.

4. Systematic Reviews: The grantee must systematically, through desk review and on-site review, monitor performance based on established criteria.

5. Report: The grantee must document any findings and issues in written reports to the subgrantee.

6. Corrective Action: The grantee must comply with the following provisions for corrective action and sanctions:

a. Corrective Action for Noncompliance: The grantee must attempt to resolve noncompliance issues by:

(1) Notifying the subgrantee of the identified monitoring findings;

(2) Either requiring or providing a corrective action plan that provides resolution within a specific timeframe and includes the sanctions if the corrective action is not implemented.

b. Notification of Sanctions: The grantee must provide written notification to the subgrantee of sanctions to be invoked if:

(1) The subgrantee refuses to submit or agree to adhere to the plan;

(2) The monitoring finding continues after corrective action is required. The notification shall provide the rights to an appeal and hearing process in accordance with this Guide.

c. Severity of Sanctions: The sanctions must reflect the severity of the monitoring finding and shall take into consideration conditions. The grantee must inform BES, in writing, of any sanction imposed or any referral to other agencies for prosecution. Other sanctions may result due to referral from the appropriate governmental agency, referral from law enforcement agency for prosecution, or other action as provided by law.

d. Monitoring of Corrective Action Results: The grantee must monitor the corrective action plan to ensure that the results and timeframes specified are achieved.

7. Records: The grantee must maintain written records to verify that required monitoring, corrective action, follow-up and resolution have occurred.

8. Results: Monitoring findings must be considered in subsequent program planning and in the selection of contractors and subgrantees. Copies of these monitoring results need to be forwarded to the Security & Employment Service Center for review.

9. Grantor Monitoring: The grantee must participate in monitoring reviews conducted by any State or Federal agency. The grantee must provide monitors with all program, participant and fiscal records that are requested.

Section N

Pre-award Costs

1. Introduction

    a. The Office of Management and Budget Circulars A-87 and A-122 allow pre-award costs. Pre-award costs are "costs incurred prior to the date of the fully executed contract directly pursuant to the negotiation and in anticipation of the contract where such costs are necessary to comply with the proposed delivery schedule or period of performance."

2. Prior Written Approval Requirements

    a. Local Workforce Investment Boards (LWIB)

        i. Prior to any pre-award costs being incurred by the LWIB a written request needs to be submitted to Bureau of Employment Services (BES)

        ii. The request should include a justification for incurring costs pre-award, an estimation of the pre-award costs, and why such costs are necessary to comply with the proposed delivery schedule or period of performance.

        iii. BES will provide a response to the LWIB within ten (10) working days after receipt of the request.

    b. LWIB Sub-recipients

        i. Prior to any pre-award costs being incurred by the LWIB sub-recipients a written request needs to be submitted to LWIB

        ii. The request should include a justification for incurring costs pre-award, an estimation of the pre-award costs, and why such costs are necessary to comply with the proposed delivery schedule or period of performance.

        iii. LWIB will provide a response to the LWIB within ten (10) working days after receipt of the request.

        iv. Sub-recipient justification and LWIB responses are to be maintained in the individual contract file at the LWIB administrative offices for a period of not less than three (3)

years following the date on which the final expenditure report has been submitted to the Security & Employment Service Center.

3. Disallowed Costs

   a. Any pre-award costs incurred by either the LWIB's or their sub-recipients without prior written approval will be disallowed by the State

   b. Any disallowed costs must be returned to the State using non-federal funds. Source of funding used to pay these disallowed costs needs to be specified when funds are returned.

SECTION O

Suspension/Debarment

Purpose:

(a) Executive Order (E.O.) 12549 provides that, to the extent permitted by law, Executive departments and agencies shall participate in a governmentwide system for nonprocurement debarment and suspension.

A person who is debarred or suspended shall be excluded from Federal financial and nonfinancial assistance and benefits under Federal programs and activities. Debarment or suspension of a participant in a program by one agency shall have governmentwide effect.

(b) These regulations implement section 3 of E.O. 12549 and the guidelines promulgated by the Office of Management and Budget under section 6 of the E.O. by:

> (1) Prescribing the programs and activities that are covered by the governmentwide system;
>
> (2) Prescribing the governmentwide criteria and governmentwide minimum due process procedures that each agency shall use;
>
> (3) Providing for the listing of debarred and suspended participants, participants declared ineligible (see definition of ``ineligible" in Sec. 98.105), and participants who have voluntarily excluded themselves from participation in covered transactions;
>
> (4) Setting forth the consequences of a debarment, suspension, determination of ineligibility, or voluntary exclusion; and
>
> (5) Offering such other guidance as necessary for the effective implementation and administration of the governmentwide system.

(c) These regulations also implement Executive Order 12689 (3 CFR, 1989 Comp., p. 235) and 31 U.S.C. 6101 note (Public Law 103-355, sec. 2455, 108 Stat. 3327) by—

> (1) Providing for the inclusion in the List of Parties Excluded from Federal Procurement and Nonprocurement Programs all persons proposed for debarment, debarred or suspended under the Federal Acquisition Regulation, 48 CFR Part 9, subpart 9.4; persons against which governmentwide exclusions have been entered under this part; and persons determined to be ineligible; and

(2) Setting forth the consequences of a debarment, suspension, determination of ineligibility, or voluntary exclusion.

(d) Although these regulations cover the listing of ineligible participants and the effect of such listing, they do not prescribe policies and procedures governing declarations of ineligibility.

Definitions:

The following definitions apply to this part:

Adequate evidence. Information sufficient to support the reasonable belief that a particular act or omission has occurred.
Affiliate. Persons are affiliates of each other if, directly or indirectly, either one controls or has the power to control the other, or, a third person controls or has the power to control both. Indicia of control include, but are not limited to: interlocking management or ownership, identity of interests among family members, shared facilities and equipment, common use of employees, or a business entity organized following the suspension or debarment of a person which has the same or similar management, ownership, or principal employees as the suspended, debarred, ineligible, or voluntarily excluded person.

Agency. Any executive department, military department or defense agency or other agency of the executive branch, excluding the independent regulatory agencies.

Civil judgment. The disposition of a civil action by any court of competent jurisdiction, whether entered by verdict, decision, settlement, stipulation, or otherwise creating a civil liability for the wrongful acts complained of; or a final determination of liability under the Program Fraud Civil Remedies Act of 1988 (31 U.S.C. 3801-12).

Conviction. A judgment or conviction of a criminal offense by any court of competent jurisdiction, whether entered upon a verdict or a plea, including a plea of nolo contendere.

Debarment. An action taken by a debarring official in accordance with these regulations to exclude a person from participating in covered transactions. A person so excluded is debarred.

Debarring official. An official authorized to impose debarment. The debarring official is either:

(1) The agency head, or

(2) An official designated by the agency head.

Indictment. Indictment for a criminal offense. An information or other filing by competent authority charging a criminal offense shall be given the same effect as an indictment.

Ineligible. Excluded from participation in Federal nonprocurement programs pursuant to a determination of ineligibility under statutory, executive order, or regulatory authority, other than Executive Order
12549 and its agency implementing regulations; for exemple, excluded pursuant to the Davis-Bacon Act and its implementing regulations, the equal employment opportunity acts and executive orders, or the environmental protection acts and executive orders. A person is ineligible where the determination of ineligibility affects such person's eligibility to participate in more than one covered transaction.

Legal proceedings. Any criminal proceeding or any civil judicial proceeding to which the Federal Government or a State or local government or quasi-governmental authority is a party. The term includes appeals from such proceedings.

List of Parties Excluded from Federal Procurement and Nonprocurement Programs. A list compiled, maintained and distributed by the General Services Administration (GSA) containing the names and other information about persons who have been debarred, suspended, or voluntarily excluded under Executive Orders 12549 and 12689 and these regulations or 48 CFR part 9, subpart 9.4, persons who have been proposed for debarment under 48 CFR part 9, subpart 9.4, and those persons who have been determined to be ineligible.

Notice. A written communication served in person or sent by certified mail, return receipt requested, or its equivalent, to the last known address of a party, its identified counsel, its agent for service of process, or any partner, officer, director, owner, orjoint venturer of the party. Notice, if undeliverable, shall be considered to have been received by the addressee five days after being properly sent to the last address known by the agency.

Participant. Any person who submits a proposal for, enters into, or reasonably may be expected to enter into a covered transaction. This term also includes any person who acts on behalf of or is authorized to commit a participant in a covered transaction as an agent or representative of another participant.

Person. Any individual, corporation, partnership, association, unit of government or legal entity, however organized, except: foreign governments or foreign governmental entities, public international organizations, foreign government owned (in whole or in part) or controlled entities, and entities consisting wholly or partially of foreign governments or foreign governmental entities.

Preponderance of the evidence. Proof by information that, compared with that opposing it, leads to the conclusion that the fact at issue is more probably true than not.

Principal. Officer, director, owner, partner, key employee, or other person within a participant with primary management or supervisory responsibilities; or a person who has a critical influence on or substantive control over a covered transaction, whether or not employed by the participant. Persons who have a critical influence on or substantive control over a covered transaction are:

(1) Principal investigators.

Proposal. A solicited or unsolicited bid, application, request, invitation to consider or similar communication by or on behalf of a person seeking to participate or to receive a benefit, directly or indirectly, in or under a covered transaction.

Respondent. A person against whom a debarment or suspension action has been initiated.

State. Any of the States of the United States, the District of Columbia, the Commonwealth of Puerto Rico, any territory or possession of the United States, or any agency of a State, exclusive of institutions of higher education, hospitals, and units of local government. A State instrumentality will be considered part of the State government if it has a written determination from a State government that such State considers that instrumentality to be an agency of the State government.

Suspending official. An official authorized to impose suspension.

The suspending official is either:

(1) The agency head, or

(2) An official designated by the agency head.

Suspension. An action taken by a suspending official in accordance with these regulations that immediately excludes a person from participating in covered transactions for a temporary period, pending completion of an investigation and such legal, debarment, or Program
Fraud Civil Remedies Act proceedings as may ensue. A person so excluded is suspended.

Voluntary exclusion or voluntarily excluded. A status of nonparticipation or limited participation in covered transactions assumed by a person pursuant to the terms of a settlement.

Coverage:

a) These regulations apply to all persons who have participated, are currently participating or may reasonably be expected to participate in transactions under Federal nonprocurement programs. For purposes of these regulations such transactions will be referred to as covered transactions.

(1) Covered transaction. For purposes of these regulations, a covered transaction is a primary covered transaction or a lower tier covered transaction. Covered transactions at any tier need not involve the transfer of Federal funds.

(i) Primary covered transaction. Except as noted in paragraph (a)(2)of this section, a primary covered transaction is any nonprocurement transaction between an agency and a person, regardless of type, including: grants, cooperative agreements, scholarships, fellowships, contracts of assistance, loans, loan guarantees, subsidies, insurance, payments for specified use, donation agreements and any other nonprocurement transactions between a Federalagency and a person. Primary covered transactions also include those transactions specially designated by the U.S. Department of Housing and Urban Development in such agency's regulations governing debarment and suspension.

(ii) Lower tier covered transaction. A lower tier covered transaction is:

(A) Any transaction between a participant and a person other than a procurement contract for goods or services, regardless of type, under a primary covered transaction.

(B) Any procurement contract for goods or services between a participant and a person, regardless of type, expected to equal or exceed the Federal procurement small purchase threshold fixed at 10 U.S.C. 2304(g) and 41 U.S.C. 253(g) (currently $25,000) under a primary covered transaction.

(C) Any procurement contract for goods or services between a participant and a person under a covered transaction, regardless of amount, under which that person will have a critical influence on or substantive control over that covered transaction. Such persons are:

(1) Principal investigators.

(2) Providers of federally-required audit services.

(2) Exceptions. The following transactions are not covered:

(i) Statutory entitlements or mandatory awards (but not subtier awards thereunder which are not themselves mandatory), including deposited funds insured by the Federal Government;

(ii) Direct awards to foreign governments or public international organizations, or transactions with foreign governments or foreign governmental entities, public international organizations, foreign government owned (in whole or in part) or controlled entities, entities consisting wholly or partially of foreign governments or foreign governmental entities;

(iii) Benefits to an individual as a personal entitlement without regard to the individual's present responsibility (but benefits received in an individual's business capacity are not excepted);

(iv) Transactions pursuant to national or agency-recognized emergencies or disasters;

(v) Incidental benefits derived from ordinary governmental operations; and

(vi) Other transactions where the application of these regulations would be prohibited by law.

(b) Relationship to other sections. This section describes the types of transactions to which a debarment or suspension under the regulations will apply. Subpart B, ``Effect of Action," Sec. 98.200, ``Debarment or suspension," sets forth the consequences of a debarment or suspension. Those consequences would obtain only with respect to participants and principals in the covered transactions and activities described in Sec. 98.110(a). Sections 98.325, ``Scope of debarment," and 98.420, ``Scope of suspension," govern the extent to which a specific participant or organizational elements of a participant would be automatically included within a debarment or suspension action, and the conditions under which affiliates or persons associated with a participant may also be brought within the scope of the action.

(c) Relationship to Federal procurement activities. In accordance with E.O. 12689 and section 2455 of Public Law 103-355, any debarment, suspension, proposed debarment or other governmentwide exclusion initiated under the Federal Acquisition Regulation (FAR) on or after August 25, 1995 shall be recognized by and effective for Executive Branch agencies and participants as an exclusion under this regulation. Similarly, any debarment, suspension or other governmentwide exclusion initiated under this regulation on or after August 25, 1995 shall be recognized by and effective for those agencies as a debarment or suspension under the FAR.

Policy:

(a) In order to protect the public interest, it is the policy of the Federal Government to conduct business only with responsible persons. Debarment and suspension are discretionary actions that, taken in accordance with Executive Order 12549 and these regulations, are appropriate means to implement this policy.

(b) Debarment and suspension are serious actions which shall be used only in the public interest and for the Federal Government's protection and not for purposes of punishment. Agencies may impose debarment or suspension for the causes and in accordance with the procedures set forth in these regulations.

(c) When more than one agency has an interest in the proposed debarment or suspension of a person, consideration shall be given to designating one agency as the lead agency for making the decision. Agencies are encouraged to establish methods and procedures for coordinating their debarment or suspension actions.

SECTION P

ALLOCATION OF COSTS

The grantee shall comply with the provisions of allocating costs described as follows:

1. Allocable Costs: Costs are allocable to grants according to the following:

a. Relative Benefits and Consistent Treatment

A cost is allocable to a particular cost objective, such as a title, program activity, or cost category in accordance with the relative benefits received. A cost is allocable to a grant if it is treated consistently with other costs incurred for the same purpose in similar circumstances and if the following applies:

(1) The cost is incurred specifically for the grant.

(2) The cost benefits both the grant and other work and can be distributed in reasonable proportion to the benefits received.

(3) The cost is necessary to the overall operation of the organization, although a direct relationship to any particular cost objective cannot be shown.

b. Avoiding Deficiencies or Restrictions

Any cost allocable to a particular grant or other cost objective under these principles may not be shifted to other federal grants to overcome funding deficiencies or to avoid restrictions imposed by law or by the terms of the grant.

2. Direct Costs: Direct costs must be charged directly to a particular grant and cost objective.

3. Joint Costs (direct shared)

The allocation method used to distribute joint costs must be based on a reasonable measurement of benefit received by each cost objective and shall be supported by a written cost allocation plan, which includes all grantee funding whether or not it originates as a BES grant. Cost allocation plans must distribute costs based on

actual activities. Budget estimates do not qualify as support for final charges. However, the effort required for distributing the cost should not be disproportionate to the amount of costs charged.

4. Cost Allocation Plans

Costs shall be allocated according to the following provisions:

a. Written Support

For audit purposes, a written plan for allocation of costs related to all funding sources is necessary to support the distribution of any joint costs related to the grant. Accounting records must support the final charges allocated by the plan.

b. Content

The allocation plan of the grantee shall cover all joint costs, including costs to be allocated under plans of other organizational units, which are to be included in the costs of BES programs. The cost allocation plan shall be presented in a single organization-wide document. The allocation plan shall contain, but not necessarily be limited to, the following:

- An organization chart of the agency
- A listing of all programs administered by the agency
- A description and explanation of the activities/services performed by the agency
- The procedures used to identify and a listing of all allocated costs
- The methods and justification used in distributing costs, including examples of the allocation
- If a governmental agency, description and basis of services provided
- Certifications that the plan is in accord with OMB A-87

- Other data as required by the grant agreement

c. Methodology

The cost allocation methodology must be consistent with GAAP and applicable OMB Circulars and be accepted by the grantee's independent auditors.

5. Administrative Cost Pool: Administrative costs may be pooled according to the following provisions:

a. Amounts Pooled

Grantees may choose to pool all of their administrative funds. Where this is done, the administrative cost pool must include all of the costs of administration for BES programs. Only actual allowable, not budgeted, administrative costs may be charged to the administrative cost pool.

b. Distribution to Fund Source

Where an administrative cost pool is used, the pool must be distributed among the various funding sources for reporting purposes. While the method of distribution need not meet the normal criteria for cost allocation, the method used shall be in writing and shall be applied consistently from period to period.

c. Distribution to Programs

For federal reporting purposes, administrative costs, which are initially charged to an administrative cost pool, must be allocated based on the benefits received by each program.

6. Due Date of Plan

The cost allocation plan is due to BES/SESC April 1st. This proposal should be based upon audited financial statements for the prior fiscal year to calculated allocated costs for the upcoming fiscal year (E.g. 2007 financial statement used to prepare cost allocation plan for 2008). SESC may withhold payment of the grantee's costs incurred under the current grant or subsequent active grants until the required plan is received.

SECTION Q

Indirect Cost Plans

I. Purpose of the Indirect Cost Rate:

The U.S. Office of Management and Budget Circular A-87 requires not-for-profit agencies to establish an approved indirect cost allocation plan and rate to recover indirect costs related to federal grants and contracts. An indirect cost rate is established on the basis of a Federally approved indirect cost rate proposal and supporting documentation submitted by organizations. Indirect costs allocable to DOL programs should be reimbursed if an organization has a Federally approved rate. Reimbursement, however, is subject to any administrative limitations established in the grants and/or contracts.

An indirect cost rate is simply a device for determining fairly and conveniently within the boundaries of sound administrative principles, what proportion of indirect cost each program should bear. Note that indirect costs are incurred for common or joint objectives and cannot be readily identified with a particular grant, contract or other activity of the organization. An indirect cost rate is the ratio between the total indirect expenses and some direct cost base. The indirect cost allocation methods used by each organization depend on its own structure, program functions, and accounting system.

II. Requirements for the Indirect Cost Plans:

- An incurred cost, or final indirect cost rate proposal, together with the supporting documentation listed in Section II.C., must be developed and submitted on an annual basis to the Division of Cost Determination (DCD) no later than six months after the close of the organization's fiscal year, unless an exception is approved by the DCD. For organizations with no prior approved indirect cost rate, a budget (or provisional) proposal must be submitted no later than three months after the effective date of the DOL award.

- All LWIB's and subgrantees are required to have an approved indirect cost plan; a copy of this plan needs to be submitted to SESC and BES. On an annual basis the approved indirect cost plan will be reviewed by SESC to ensure the LWIB's are only charging the indirect cost rate approved by the cognizant

agency; any additional amount will be considered a disallowed cost under the OMB Circulars.

- All LWIB's are required to have their subgrantees submit a copy of their approved indirect cost plan on a yearly basis. On an annual basis the approved indirect cost plan will be reviewed by the LWIB's to ensure that the subgrantees are only charging the indirect cost rate approved by the cognizant agency; any additional amount will be considered a disallowed cost under the OMB Circulars.

- A copy of the LWIB's indirect cost plan is required to be submitted to SESC/BES on a yearly basis by April 1st.

SECTION R

Fraud/Abuse Policy

I. INTRODUCTION:

WIA Regulations 20 CFR 667.630 require that incidents of fraud, waste, abuse or other criminal activity be reported through the incident reporting system to the Department of Labor, Office of Inspector General. This policy applies to the Bureau of Employment Services (BES) monies received USDOL and passthru monies to its subrecipients under the Workforce Investment Act (WIA). Nothing in this procedure should preclude or discourage the reporting of criminal incidents to local authorities as well.

II. OIG/DOL HOTLINE [' 667.630]:

All LWIB's/Grantees are requested to notify their employees of the availability of the "OIG/DOL Hotline" to report information, confidentially.

A. The Hotline (1-800-347-3756) was established for employees and the public to notify the Office of the Inspector General (OIG) of suspected fraud, abuse or waste in DOL-funded programs. The Hotline permits reporting of matters anonymously, if desired, to avoid fear of reprisal.

B. Information supplied via the Hotline should be as specific as possible to enable the OIG to identify and solve the problem. The Hotline should not be used for resolving employee grievances, EEO compliance, labor disputes or other personal concerns.

C. Should an allegation of fraud or abuse be filed directly with the ***[State]*** which concerns a LWIB/Grantee, the completed report shall be forwarded to the Department of Labor for action.

III. SPECIAL NOTES:

A. Any person or organization who knowingly submits false or fraudulent claims or written, certified statements for money, services, or property is subject to the Program Fraud Civil Remedies Act.

B. The LWIB's are required to maintain a fraud and abuse policy that complies with this regulation. This policy and procedure will be reviewed during the annual monitoring of the LWIB.

C. The LWIB has the responsible to ensure that any subrecipients comply to this regulation. This policy and procedure should be reviewed during the annual monitoring of the subreciepent.

D. The LWIB will provide its subrecipients with written notification regarding their responsibilities to be alert for instances of fraud, abuse, and criminal activity or noncriminal incidents, such as waste, committed by staff, contractors, or program participants and to report all such instances to the LWIB, OIG and BES immediately. The LWIB will maintain a file of such written notification and provide clear and concise reports on any such activity or incident.

IV. EMPLOYEES RIGHT:

The State Whistle Blower Law protects employees reporting fraudulent or wrongful acts and those who cooperated with the investigation will be protected from retaliatory actions.

V. EXAMPLES OF FRAUDULENT OR WRONGFUL ACT:

Fraudulent or wrongful acts includes but are not limited to the following:

1. Establishing claims with bogus wages
2. Taking and processing unemployment claims of friends or relatives
3. Conducting any type of audit of employers or claimants that are relatives or friends
4. Intentionally authorizing an improper claim
5. Initiating claims for fictitious claimants
6. Misappropriating outgoing or returned benefit checks
7. Pocketing repayment made by overpaid claimant.
8. Extorting money or accepting favors from program participants
9. Receiving kickbacks
10. Diverting refund checks
11. Receiving gifts from vendors or prospective vendors

12. Initiating bogus refunds

13. Misusing blank or voided checks

14. Overstating travel expense reimbursements

15. Forging checks or other source documents

16. Misuse of Agency owned property

17. Intentional authorization of ineligible participation in Agency programs

18. Deliberately inputting erroneous data

19. Abuse of position for personal gain

20. Obtaining conflicting secondary employment

21. Intentional preparation of inaccurate fiscal or program reports

22. Misuse of confidential information

23. Failure to report income from Federal grants

24. Destroying Agency records to conceal fraudulent or wrongful acts

25. Authorizing invoices for which you know goods or services will not or have not been received

26. Misuse of petty cash

VI. REPORTING:

Within one workday of detection of or discovery of information alleging fraud, abuse, or other criminal activity involving WIA funds, a written incident report shall be prepared by the detecting entity. The report must include a statement of all facts known at the time as well as any known or estimated loss of WIA funds resulting from the incident. Any facts subsequently developed by the WIB or subrecipient will be forwarded in a supplemental incident report.

VII. REPORTING ADDRESSES/PHONE NUMBERS:

A. Regional U.S. Department of Labor Office.
Region I - Regional Administrator
U.S. Department of Labor/ETA
J.F.K. Federal Building, Room E-350
Boston, MA 02203
Phone: (617) 788-0170
Fax: (617) 788-0101

B. National U.S. Department of Labor Office.
Department of Labor
Office of Inspector General
Office of Investigations
200 Constitution Avenue, NW
Room S-5514
Washington, D.C. 20210
Hotline: 1-800-347-3756

SECTION S

Salary and Bonus Limitations

REFERENCE:

Public Law 109-234; Public Law 109-149; OMB Circular A-133; TEGL 5-06; and Federal Register, Vol. 71, No. 161, August 21, 2006.

BACKGROUND:

Following reports of significant abuses of administrative costs by a local Worker Investment Board in another state, Congress included language in an emergency supplemental appropriations bill, Public Law 109-234, limiting salary and bonus compensation for individuals who are paid by funds appropriated to the U.S. Department of Labor, Employment and Training Administration and provided to recipients and subrecipients. This Act was signed by President Bush on June 15, 2006. Section 7013 states: "None of the funds appropriated in Public Law 109-149 or prior Acts under the heading 'Employment and Training Administration' that are available for expenditure on or after the date of enactment of this section shall be used by a recipient or subrecipient of such funds to pay the salary and bonuses of an individual, either as direct costs or indirect costs, at a rate in excess of Executive Level II, except as provided for under section 101 of Public Law 109-149. This limitation shall not apply to vendors providing goods and services as defined in OMB Circular A-133."

POLICY:

Affected Programs

The new salary and bonus limitation applies to all programs and activities undertaken through grants and contracts funded by an appropriation to the Employment and Training Administration (ETA). All programs, including the Workforce Investment Act (WIA) program, administered by ETA are covered by this provision unless the program falls within an exception as outlined below. The limitation also applies to programs funded by an ETA appropriation, but administered by another agency. For example, certain programs funded by ETA appropriations are administered by the Department of Labor's Veterans Employment and Training Service or the Department of the Interior. When a recipient or subrecipient receive funds from ETA that are a combination of funds

appropriated to ETA and funds not appropriated to ETA, then the limitations of section 7013 apply to the portion of the funding that is appropriated to ETA.

Exceptions

Federal WIA Section 503 Incentive grants financed only through Department of Education appropriations are not covered by this limitation. The limitation also does not apply to the Disaster Unemployment Assistance (DUA) program since these funds are appropriated to the Federal Emergency Management Agency (FEMA) and then transferred to ETA. The limitation does not apply to programs funded by H-1B grant funds. These funds are received from employer paid fees and are not appropriated. Therefore, the programs they fund are not covered by the salary and bonus limitation. Examples of such programs include activities funded through the Workforce Innovation in Regional Economic Development (WIRED) Initiative and some High Growth Job Training Initiative grants. Public Law 109-149 section 101 previously set the limitation for individuals paid through the Job Corps program at a rate not in excess of Executive Level I and that limitation is still in effect. Any limitation on payments to individuals contained in grants or contracts with ETA which are more restrictive than Public Law 109-234 are not changed. For example, any limitation on consultant fees in grants or contracts are generally more restrictive than the limitations in Public Law 109-234, when broken down as an hourly rate, and will continue to apply.

Covered Individuals and Transactions

The provision in Public Law 109-234 limits the amount of funds used by a recipient or subrecipient to pay for salary and bonuses of an individual. Any salary or bonus payments made by a recipient or a subrecipient to an individual are covered by this limitation.

A recipient means a non-Federal entity that expends Federal awards received directly from a Federal awarding agency to carry out a Federal program. Examples of recipients include entities and their funded partners that receive contracts and grants from ETA.

A subrecipient means a non-Federal entity that expends

Federal awards received from a pass-through entity to carry out a Federal program, but does not include an individual that is a beneficiary of such a program. A subrecipient may also be a recipient of other Federal awards directly from the Federal awarding agency. Examples of subrecipients include sub-contractors or sub-grantees.

According to the law, this limitation does not apply to vendors as defined in OMB Circular A-133. A vendor means a dealer, distributor, merchant, or other seller providing goods or services that are required for the conduct of a Federal program. These goods or services may be for an organization's own use or for the use of beneficiaries of the Federal program. Characteristics indicative of a payment for goods and services received by a vendor are when the organization: provides the goods and services within normal business operations; provides similar goods or services to many different purchasers; operates in a competitive environment; provides goods or services that are ancillary to the operation of the Federal program; and is not subject to compliance requirements of the Federal program.

Effective Date and Funding Cycles Impacted

The limitation on salaries and bonuses applies to funds appropriated in Fiscal Year 2006 under Public Law 109-149 and prior year 'Employment and Training Administration' appropriated funds that remain available for expenditure. It applies to funds available for expenditure on or after June 15, 2006. If funds were expended before June 15, 2006, then this limitation is not applicable to those funds.

Application of the Limitation

The law sets the limit on salaries and bonuses at a rate equivalent to no more than Executive Level II. A salary table providing this rate is listed on the Federal Office of Personnel Management Web site (www.opm.gov) under Federal Salaries & Wages. These levels are adjusted annually and the Web site is updated annually. For FY 2006, the limit is set at $165,200. The Public Law 109-234 limitation does not apply to benefits that are not salary and bonuses. For example, fringe benefits, insurance premiums or pension plans paid by a

recipient or subrecipient are not included in this calculation.

In some cases, individuals receive payments from funds not impacted by this limitation, in addition to funds impacted by section 7013. For example, an entity may receive funds from other Federal programs, from the state, from municipalities, or even private funds. In those instances, the total sum of any employee's salary and bonuses may be higher than Executive Level II. However, in instances where funds impacted by section 7013 only pay a portion of the salary, the section 7013-impacted funds may only be charged for the share of the employee's salary attributable to the work on the section 7013-impacted grant or contract. That portion cannot exceed the Executive Level II rate. For example, if 25 percent of an employee's time is attributable to work performed under grants covered by the provision and the annual Executive Level II amount is $165,200, no more than $41,300 can be charged to ETA during the year.

Since the restriction applies to both salaries and bonuses, the sum of all bonuses received over the previous 12-month period when added to the employee's salary may not at any time exceed the limitation.

If not already done, all affected ETA fund recipients or subrecipients must implement these new requirements retroactively to the date of enactment, June 15, 2006.

SECTION T

Budgeting

Introduction:

The State of Maine's budget process for WIA is designed to be the vehicle that brings together all of the planned activities into one master set of meaningful actions. The budget provides BES managers a planning tool that assists in the determination of the goals for the WIA program.

Standards:

1. Annual Operating Plan Preparation- on an annual basis, the LWIB's and sub-recipients will identify "budget year" objectives and priorities linked to the updated strategic goals of BES relating to the WIA program.

2. Operating Budget Preparation: An operating budget will be prepared each year by the LWIB's and sub-recipients. It will be based on the objectives and priorities for the WIA program for the upcoming budgeting year. This budget is submitted to BES for approval once approved by the LWIB board of directors. Once the budget is approved, the LWIB's and sub-recipients will enter this information into their accounting system by line item; this will allow them to monitor expenditures based upon the executed contract.

    a. Budgeting by month: The operating budget for LWIB's and sub-recipients will be spread by months throughout the fiscal year. In addition to being a planning tool, the budget acts as a financial guide to be used throughout the year; monthly budgeting best serves this purpose. It also enhances an organization's ability to "know where they are" during the year and to forecast year-end results. This spread must reasonably reflect how a LWIB's and sub-recipients revenue and expense will occur during the fiscal year. It is not acceptable to spread the budget evenly by month.

3. Capital Budget Preparation: A separate capital budget will be prepared annually. It will identify the major capital assets that have been assigned a high priority for acquisition along with the expected source of funds. The capital budget will contain all capital expenditures as defined by Section L of this manual.

4. Variance Analysis: a summary of variances from budget will be prepared and analyzed on a monthly basis. Results of this analysis will be distributed and reviewed at the board of directors meeting.

5. Request for budget revisions: any budget modification to increase or decrease a line item by 10% needs to be submitted to BES prior to adjusting the LWIB's and/or sub-recipients accounting system. The budget modification request needs to provide written justification for the change in the originally approved line item budget.

6. Rescissions procedures: in a year if USDOL (ETA) issues a rescission of WIA funds; BES/SESC will work with the LWIB's and sub-recipients to adjust the budgets accordingly to comply with this rescission.

7. Request for carry-forward: At the end of the fiscal year (June 30), any unspent funds on prior year contracts will be carried forward automatically to the next fiscal year. The carry forward monies must be spent prior to spending any funds for the new fiscal year. LWIB's and sub-recipients need to implement a First in First Out policy (FIFO) when expending grant funds.

SECTION U

DEBT AND DEBT COLLECTION:

The grantee shall comply with the provisions of debt and debt collection described as follows:

1. **Local Collection Procedures.** Grantees must develop written debt collection procedures. These procedures are to provide for timely collection of debts or attainment of waivers from DOL in coordination with BES/SESC.

Establishment of Debt. A debt to BES is established when costs are disallowed in writing by one of the following:

a. Audit. An audit resolution findings and determinations letter;

b. Ruling. A complaint and appeal ruling;

c. Report. A report of an investigation;

d. Closeout. A grant closeout report;

e. Monitoring. A monitoring report.

3. Collection of Debt. Collection options available to BES, include but are not limited to, the following:

a. Cash Repayment. Requiring cash repayment from non federal sources;

b. Withholding Funds. Withholding from current grant costs an amount equal to the disallowed costs to offset the debt;

c. Noncash Repayment. Requiring repayment with the use of stand-in costs.

Stand-in costs are costs paid from non-federal sources that a grantee proposes to substitute for disallowed costs. In-kind contributions do not qualify as stand-in costs. To be valid substitutions, the proposed stand-in costs must:

(1) Have been reported as uncharged program costs under the same title and program year as were the disallowed costs;

(2) Have been incurred in compliance with laws, regulations, and contractual provisions governing expenditures;

(3) Be accounted for in the grantee's financial system records; and

(4) Not result in a violation of cost limitations.

4. Waiver of Sanctions Relating to Debt. A waiver of all or a part of the sanctions relating to a grant debt can be obtained. If the United States Department of Labor (DOL) determines that the grantee and the state have demonstrated substantial compliance with the applicable requirements, sanctions against the state may be waived. The state may transfer this waiver to the grantee. All waiver requests must be processed through BES. The grantee must request the waiver and must demonstrate it has established an adequate subcontracting system that included timely monitoring and audit resolution activities. Waivers will only be issued by the DOL if the misexpenditure of grant funds:

a. Occurred at the subgrantee level;

b. Was not due to willful disregard, gross negligence, failure to observe accepted administrative standards, or did not constitute fraud; or

c. If fraud did exist, it was perpetrated against the grantee and its appeal and debt collection process has been exhausted with no repayment rendered. No waiver will be granted unless DOL determines that further collection action would be inappropriate or would prove futile.

d. A waiver request must be accompanied by the resolution reports that established the debt. If the DOL Employment and Training Administration (ETA) Grant Officer is resolving the finding, a request for waiver shall be made prior to the conclusion of the informal resolution period, normally 60 days from the date of the ETA Grant Officer's Initial Determination letter.

A Guide for Indirect Cost Rate Determination

Based on the Cost Principles and Procedures
Required by OMB Circular A-122 (2 CFR Part 230)
for Non-profit Organizations
and by the Federal Acquisition Regulation - Part 31.2
for Commercial Organizations

U.S. Department of Labor
Division of Cost Determination
Office of Acquisition Management Services
Business Operations Center, OASAM

October 2007

PREFACE

This Guide has been prepared by the Division of Cost Determination (DCD), to assist non-profit and commercial organizations in understanding the requirements for the determination of indirect costs on **cost reimbursable** grants, contracts, and other agreements awarded by the U.S. Department of Labor (DOL).

An indirect cost rate is established on the basis of a Federally approved indirect cost rate proposal and supporting documentation submitted by organizations. Indirect costs allocable to DOL programs should be reimbursed if an organization has a Federally approved rate. Reimbursement, however, is subject to any administrative limitations established in the grants and/or contracts.

The formats provided in this guide are the preferred formats of DCD, but are not strictly required, as some other format may be acceptable. The actual content of the exhibits and samples may vary between organizations.

An indirect cost rate is simply a device for determining fairly and conveniently within the boundaries of sound administrative principles, what proportion of indirect cost each program should bear. Note that indirect costs are incurred for common or joint objectives and cannot be readily identified with a particular grant, contract or other activity of the organization. An indirect cost rate is the ratio between the total indirect expenses and some direct cost base. The indirect cost allocation methods used by each organization depend on its own structure, program functions, and accounting system.

Prior to the preparation of an indirect cost rate proposal and supporting documentation; and, to be in accordance with the procedures described in this Guide, the applicable cost principles should be reviewed.

OMB Circular A-122 (codified on August 31, 2005, in 2 CFR Part 230) "Cost Principles for Non-Profit Organizations," establishes the Federal requirements for the determination of allowable and unallowable direct and indirect costs, and is available at either one of the following websites: http://www.whitehouse.gov/omb/fedreg/2005/083105_a122.pdf, and http://www.whitehouse.gov/omb/circulars/a122/a122_2004.html.

The Federal Acquisition Regulations, Part 31.2, "Contracts with Commercial Organizations", establishes the Federal requirements for the determination of allowable and unallowable direct and indirect costs, and is available at the following website: http://www.acqnet.gov/far/

The Office of Inspector General randomly audits indirect cost rate proposals. The results of their audits have indicated a need for better controls and procedures on charging indirect costs to Federal awards. Section IV of this Guide, provides examples of problems disclosed during such audits which are presented here to help avoid future problems.

All inquiries for additional information should be directed to DCD. The addresses and telephone numbers of the DCD national office and regional cost negotiators can be found in Appendix III of this Guide.

VICTOR M. LOPEZ
Chief
Division of Cost Determination

A GUIDE FOR
INDIRECT COST DETERMINATION
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SECTION I

General Information

Section I

General Information

This section includes the following information:

A. Definition of Indirect Costs
B. Types of Indirect Rates
C. Determination of Indirect Cost Rates and Cost Allocation
D. Submissions of Indirect Cost Proposals
E. Approval of Indirect Cost Proposals
F. Negotiated Indirect Cost Rate Agreement (NICRA)
G. Disputes
H. Reimbursement of Indirect Costs
I. Retention of Records

A. Definition of Indirect Costs

According to OMB Circular A-122 (2 CFR Part 230):

> "Indirect costs are those that have been incurred for common or joint objectives and cannot be readily identified with a particular final cost objective…"

B. Definition and types of Indirect Rates

An indirect cost rate is simply a device for determining fairly and conveniently within the boundaries of sound administrative principles, what proportion of indirect cost each program should bear. An indirect cost rate is the ratio between the total indirect expenses and some direct cost base.

The DCD typically issues provisional and final indirect cost rates. There are also predetermined and fixed rates but are rarely used. All of these rates are described below, per OMB Circular A-122:

1. Provisional rate or billing rate means a temporary indirect cost rate applicable to a specified period which is used for funding, interim reimbursement, and reporting indirect costs on awards pending the establishment of a final rate for the period.

2. Final rate means an indirect cost rate applicable to a specified past period which is based on the actual costs of the period. A final rate is not subject to adjustment.

   Note that a final indirect cost rate is established after an organization's actual costs are known, typically a fiscal year. Once established, a final indirect cost rate is used to adjust the indirect costs claimed.

   The use of provisional and final rates will likely result in final audited expenditures being higher or lower than those reported for awards, which are terminated during the organization's fiscal year. A final rate may be issued as a provisional rate in the ensuing year, adjusted for anticipated changes in funding levels or costs.

3. Predetermined Rate: A permanent rate established for a specified current or future period and is not subject to adjustment. A predetermined rate may be used on awards where there is reasonable assurance that the rate is not likely to exceed a rate based on the organization's actual costs;

4. Fixed Rates with carry-forward: A permanent rate established for a future prospective period of time used for budgeting, obligations, and payment of funds by awarding agencies. Actual costs are determined by the organization's accounting system and the difference between fixed and actual is carried forward to a future period (usually the organization's fiscal year) in order to adjust the fixed rate for any over or under recovery.

Provisional and final rates are preferred by most organizations for the following reasons:

1. Actual indirect costs are allocated to program objectives in the year incurred, creating accurate cost information;
2. There are no prior year indirect costs carried into a future year to burden new or continuing funding;
3. All indirect costs are properly funded in the fiscal year incurred, creating no profit or loss for the organization;
4. The organization's accounting system must determine actual costs each year, a capability that ultimately must exist to synchronize accounting, budgeting, and cost allocation; and
5. The actual cost of services or programs is determined annually and is therefore available for purposes of internal management and informed budgeting.

C. Determination of Indirect Cost Rates and Cost Allocation

Non – Profits - The three basic methods for calculating indirect cost rates under OMB Circular A-122 are the:

- Simplified,
- Multiple Rate, and
- Direct Allocation methods**.**

Specific instructions on the computation of indirect cost rates with the conditions on when to use each method are contained in OMB Circular A-122, Attachment A. Examples of the Simplified and Direct Allocation methods are shown on Exhibits D and E in Section III of this Guide.

OMB Circular A-122 also provides for the use of Special Indirect Cost Rates. A single indirect cost rate for all activities of the organization may not be appropriate when work under the Federal program is conducted in an offsite location and the level of administrative support is different than other programs.

For an organization that receives more than $10 million in Federal funding of direct costs in a fiscal year, a breakout of the indirect costs into two components; **Facilities and Administration**, as defined below, is required. The rate shall be stated as a percentage which the amount of **Facilities and Administration** is, of the applicable distribution base used for each component. Each indirect cost rate negotiation agreement shall identify the development of each indirect cost pool component as well as the overall indirect cost rate.

1. **"Facilities"** is defined as depreciation and use allowances on buildings, equipment and capital improvements; interest on debt associated with certain buildings, equipment and capital improvements; and operations and maintenance expenses.
2. **"Administration"** is defined as general administration and general expenses such as the director's office, accounting, personnel, library expenses and all other types of expenditures not listed specifically under one of the subcategories of "Facilities", (including cross allocations from other pools, where applicable).

When a grantee uses the **Direct Allocation** method to calculate indirect cost rates and rents the facilities used to operate Federal programs, then a breakout of the above indirect cost components is not required. This policy has been adopted since the majority of the rental costs, as well as other facilities/administration costs, would be direct charged to Federal programs.

Commercial Organizations – Typically, commercial organizations use the "simplified" method, and can follow Exhibit D in Section III of this Guide, if applicable.-

D. Submissions of Indirect Cost Proposals

Prior to the preparation of an indirect cost rate proposal and supporting documentation, the following cost principles should be review to determine if the costs proposed are reasonable, allowable, and allocable to the Federal government:

Non-profit Organizations	OMB Circular A-122 (2 CFR Part 230)
Commercial Organizations	Federal Acquisition Regulation (Part 31.2)

An incurred cost, or final indirect cost rate proposal, together with the supporting documentation listed in Section II.C., must be developed and submitted on an annual basis to the DCD no later than six months after the close of the organization's fiscal year, unless an exception is approved by the DCD. For organizations with no prior approved indirect cost rate, a budget (or provisional) proposal must be submitted no later than three months after the effective date of the DOL award.

The indirect cost rate proposal is to be submitted to the DCD office that covers the geographical region in which the organization is located (see Appendix III for addresses, telephone numbers, and fax numbers of the National and Regional office locations).

E. Approval of Indirect Cost Proposals

Unless different arrangements are agreed to by the agencies concerned, the Federal agency with the largest dollar value of awards with an organization will be designated as the cognizant agency for the negotiation and approval of the indirect cost rates.

The DCD will negotiate and approve indirect cost rates when the DOL is the cognizant Federal agency. Indirect costs can only be charged to a grant or contract based on a Negotiated Indirect Cost Rate Agreement (NICRA) approved by the DCD. However, the approval of indirect costs by the DCD is not intended to identify the circumstances or dictate the extent of Federal participation in the financing of particular grants or contracts.

F. Negotiated Indirect Cost Rate Agreement (NICRA)

The approval will be formalized by a rate agreement signed by the Chief, DCD (or its designee) and an authorized representative of the organization. Each agreement will include:

1. The approved rate(s) and information directly related to the use of the rates, e.g., type of rate, effective period, and distribution base;
2. The treatment of fringe benefits as either direct and/or indirect costs, or an approved fringe benefit rate;
3. General terms and conditions; and
4. Special remarks, e.g., composition of the indirect cost pool.

Sample copies of agreements used by the DCD are shown in Appendix I and II of this Guide.

G. Disputes

When the DCD and a grantee/contractor cannot reach an agreement on an acceptable indirect cost rate, the DCD will make a unilateral determination of the rate(s) and will notify the organization. The DCD or the grant/contract officer will advise the organization of its right to appeal the determination and will provide information about the appeal procedures to follow upon request.

H. Reimbursement of Indirect Costs

Reimbursement of indirect cost is subject to the submission of an indirect cost rate proposal (see part D of this Section), availability of funds, statutory and administrative restrictions, and the approval of the DOL Grant/Contract Officer or authorized representative.

Certain DOL grants and contracts include ceilings for reimbursement of indirect costs and/or administrative costs. When the amount otherwise allocable as indirect costs exceeds the amount allowable under the terms and conditions of the grant/contract agreement, the excess amount may be used to satisfy cost-sharing or matching requirements. However, the differences may not be shifted to another Federal grant or contract unless specifically authorized by legislation.

I. Retention of Records

If the indirect cost rate proposal, cost allocation plan, or other computation **is** to be submitted to the Federal Government (or to the grantee) to form the basis for negotiation of a rate(s), there is the 3-year retention requirement from the date of such submission.

If the indirect cost rate proposal, cost allocation plan, or other computation is **not** required to be submitted to the Federal Government for negotiation purposes, then the 3-year retention period for its supporting records starts from the end of the fiscal year (or other accounting period) covered by the indirect cost rate proposal, cost allocation plan, or other computation.

For regulatory basis on “retention of records” for non-profits, see OMB Circular A-110 - Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and other Non-Profit Organizations, Subpart C. 53.

For regulatory basis on “retention of records” for commercial organizations, see the Federal Acquisition Regulation Part 4 – Administrative Matters, Subpart 4.703 Policy.

If any litigation, claim or audit is started before the expiration of the 3-year period, the records shall be retained until all litigations, claims or audit findings involving the records have been resolved.

SECTION II

Preparing Indirect Cost Rate Proposals

SECTION II

Guidelines for Preparing Indirect Cost Rate Proposals

Note: Grantees/Contractors must have an established accounting system prior to being awarded a grant or contract from DOL or any other agency in the Federal government. The accounting system must provide adequate internal controls to safeguard assets, insure fund accountability by cost category, assure accounting data accuracy and reliability, promote operating efficiency, and comply with Government requirements and accounting procedures.

For reference purposes, see the Standards for Financial Management Systems in OMB Circular A-110. Also, see evaluation of accounting systems referenced in FAR Part 9.106 and the Standard Form 1408.

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This section includes the following information:

A. Preliminary Steps
B. Indirect Cost Allocation Bases
C. Indirect Cost Rate Proposal "Checklist", and Notes to "Checklist"
D. Indirect Cost Proposal – Review Procedures
E. Administration Limits and Indirect Cost Claims

A. Preliminary Steps

Prior to the preparation of an indirect cost rate proposal and supporting documentation, the cost principles established by OMB Circular A-122 (2 CFR Part 230) for grantees or the Federal Acquisition Regulation (Part 31.2) should be thoroughly reviewed. If indirect costs are allowed in the award, the entity will then be ready to prepare an indirect cost rate proposal based on the following steps:

1. Organization Review

- If one does not already exist, prepare a formal organizational chart(s), or a rough draft version, and provide any information or material explaining the various services and/or functions for each unit.
- Determine which units are indirect (administrative) functions of the organization.
- Determine the services that are allowable and allocable to Federal grants and contracts, using guidance provided in OMB Circular A-122 (2 CFR Part 230), or if applicable, FAR Part 31.

2. Review Federal and Non-Federal Funding

- Review the "Federal and Non-Federal Outlays" to determine programs being funded; verify with the appropriate staff.
- Prepare a list of all funded programs in detail as to the amount or percent of reimbursement of direct and indirect cost and any restrictions or references to statutes or regulations.
- Determine at what organizational level the various funded programs apply. Illustrate the list of funded programs on a copy of the organization chart.
- Contact the Federal agency which provides the most funds regarding the procedures for the submission, review and approval of indirect cost rates.

3. Review the Accounting Structure

- Obtain a chart of accounts, or some other list of accounts for your organization, in which the actual dollars expended can be related to various programs and/or organization structure.
- Reconcile the accounting structure to the organization chart.
- If necessary, determine changes to implement an indirect cost rate system of billing.

4. Prepare a Cost Policy Statement

- Develop a written policy that outlines the costs considered as direct, the costs considered to be indirect, and the rationale to support those costs. A sample cost policy statement is available in Section III.

5. Prepare an Indirect Cost Rate Proposal

- Determine which method is best for the organization, i.e., direct cost allocation or simplified, and whether special indirect cost rates are required, i.e. on-site, off-site, fringe benefit rate for full-time vs. part-time. In selecting the appropriate method, the organization should consider the following:

    a. Organizational structure
    b. Level of Federal funding
    c. Reports generated from their accounting system
    d. Availability of data on square footage, number of transactions, employees, purchase orders, etc.
    e. Additional effort and cost required to achieve a greater degree of accuracy.

- Prepare the indirect cost rate proposal following the examples shown in Section III.
- Prepare a Certificate of Indirect Costs and have signed by the Executive Director, or other designated official with organization's signature authority (see Section III for a sample).
- Compile all remaining documentation required by the cognizant Federal agency – for DCD organizations see DCD's checklist on page II-4.
- Reconcile the indirect cost rate proposal to the audited (if applicable) financial statements.

6. Obtain Cognizant Agency Approval

- Submit proposal to cognizant agency;
- Cognizant agency may follow up after review with questions, and/or concerns – and may request additional documentation, and/or narrative responses, in support of the proposal.
- Document meeting and/or telephone conversations, e-mails and faxes.
- Make any agreed upon changes, and submit any revised, and/or supporting documentation requested by cognizant agency.
- Receive Negotiated Indirect Cost Rate Agreement.

7. Implementation

- Prepare claims using the lower of either the approved rate, or the ceiling rate for your grant or contract.
- Use final rate(s) included in indirect cost rate agreement for close-out purposes.
- Maintain documentation for audit purposes – see page I-4 for Retention of Records.

B. Indirect Cost Rate Allocation Bases

The following allocation bases are acceptable examples for use when indirect costs are allocated to benefiting cost objectives by means of an indirect cost rate. (Also see Exhibit E Suggested Allocation Bases – pages III-12 & III-13)

1. Direct salaries and wages including (or excluding) all fringe benefits.
2. Direct salaries and wages including vacation, holiday, sick pay, and other paid absences but excluding all other fringe benefits.
3. Total direct cost excluding (if applicable) capital expenditures (buildings, individual items of equipment; alterations and renovations), subawards or that portion of each subaward in excess of $25,000 and flow-through funds.
4. Total direct costs excluding (if applicable) capital expenditures (buildings, individual items of equipment; alterations and renovations); subawards or that portion of each subaward in excess of $25,000; rental/maintenance of off-site activities; student (enrollee) tuition payments and student support costs (e.g. student aid, stipends, dependency allowances, scholarships, fellowships).
5. Modified total direct costs consisting of salaries and wages, fringe benefits, materials and supplies, services, travel, and subawards up to $25,000 each or all subawards.

   NOTE: The cost of equipment purchases, major renovation or subcontract costs may vary considerably from program to program which causes the indirect cost to be allocated in a disproportionate amount to the benefit derived. Therefore, such costs will be excluded from the base when a total direct cost is being used.

6. For commercial entities, total costs less G&A expenses.

The selection of an appropriate allocation method should be based upon the commonality of costs to all cost objectives. In general, a correlation exists between the incurrence of administrative effort with the expenditures for direct labor. In most cases, a direct labor base will produce an equitable distribution of indirect costs. However, where the ratio of direct labor to total direct costs varies significantly from program to program, an "adjusted" total direct cost base should be used in allocating costs to benefiting programs.

The proposed allocation base(s) is subject to negotiation and approval by DCD. Any modifications to the “approved” base require prior written approval. Failure to obtain such written approval may result in cost disallowance.

C. Indirect Cost Rate Proposal Checklist – non-profit and commercial organizations[1]

1. Submit once unless changes are observed:

   ____1a. Organizational chart,
   ____1b. Employee time sheet sample, providing for distribution of hours to direct/indirect functions.
   ____1c. Signed Cost Policy Statement.

2. An Indirect cost rate proposal(s) providing the following:

   ____2a. Personnel Costs Worksheet, including fringe benefits breakdown.
   ____2b. Allocation of Personnel Worksheet, providing indirect/direct time charges.
   ____2c. Fringe Benefits Worksheet,
   ____2d. Statement of Total Costs, supporting the indirect and direct costs incurred by expense category, identified by Federal agency, specific government grant, contract, and other non-government activities.
   ____2e. Statement of Indirect Costs, including indirect cost pool(s), allocation base(s), and indirect cost rate(s) proposed.

3. ____ Audited financial statements, if available. If audited financial statements are not available, IRS Form 990 (non-profits) or compilation/review financial statements (for-profits) for the final rate proposal. Approved budget for provisional proposal, if needed. OMB A-133 supplemental information, if available. Note: The Statement of Total Costs (2d. above) must reconcile to Financial Statements. If not, please provide documentation showing reconciliation.

4. ____Certification that the indirect cost rate proposal was:

   ____4a. prepared in a manner consistent with the applicable cost principles set forth in OMB A-122 for non-profits, or the Federal Acquisition Regulations (Part 31) for commercial organizations.
   ____4b. that the non-profit grantee complied with the lobbying requirements of OMB Circular A-122 (2 CFR Part 230), Attachment B, paragraph 25 (If applicable).

   The certifications must be signed by the President/Executive Director, or Comptroller/ CFO.

5. ____A listing of grants and contracts by Federal agency, total dollar amount, period of performance, and the indirect cost (overhead) limitations (if any) applicable to each, such as, ceiling rates or amounts restricted by administrative or statutory regulations, applicable to the period(s) of the proposal(s). This listing should also be supported by the approved federal grant or contract notification award(s).

[1] Refer to Section III of this guide or to the following website to obtain samples of indirect cost proposal exhibits, employee timesheet, certification and cost policy statement: http://www.dol.gov/oasam/programs/boc/costdeterminationguide/main.htm

Notes to "Checklist", as applicable

1a. Not applicable.

1b. Timesheet or Personnel Activity Report (PAR)

An acceptable timesheet or PAR sample is available in Section III of this Guide.

1c. Cost Policy Statement (CPS)

An example of a CPS is shown in Section III of this Guide.

The CPS is a disclosure of the organization's accounting practices, policies, and procedures for allocating direct and indirect costs. It is required documentation upon an organization's first indirect cost rate proposal submission and requires a signature.

DCD requires its' Cost Negotiators to review an up-to-date CPS as part of the review process upon submission of an indirect cost rate proposal. If applicable, for subsequent proposals, organizations need only identify changes made from the original CPS.

If the contractor/grantee is not proposing any changes, the following suggested language should be included in the transmittal letter when a proposal is submitted:

> **[ABC Non-Profit/Commercial Organization] hereby confirms that no changes to its accounting policies and practices as set forth in its Cost Policy Statement dated [September 13, 200X] have been made.**

2a. Personnel Costs Worksheet

An example of a personnel costs worksheet is presented as Exhibit A in Section III of this Guide.

When preparing a Provisional Indirect Cost Rate Proposal**,** current approved budget figures should be used in the preparation of the personnel costs worksheet. When a Final Indirect Cost Rate Proposal is prepared, actual personnel costs should be used in preparation of this Exhibit.

Actual personnel costs should be documented in accordance with OMB Circular A-122 (2 CFR Part 230), Attachment B, paragraph 7.m. (1) through (4), and the FAR.

2b. Allocation of Personnel Worksheet

An example of an Allocation of Personnel Worksheet is shown in Section III, Exhibit B of this Guide.

This document reflects the estimated or actual salary costs for each Federal and Non-Federal cost objective. The percentage of time per position should be entered under the appropriate cost objective, making sure that 100 percent is allocated for each position.

The grantee/contractor must maintain a time distribution system for use by employees whose time is charged to more than one cost objective. Payroll documentation should be maintained to support the charging of salaries and wages as direct or indirect.

2c. Statement of Employee Benefits

An example of a Statement of Employee Benefits is shown in Section III of this Guide.

This document should contain the estimated or actual costs of the items in the employee fringe benefit pool. Employee (fringe) benefits should follow the salary of the individual and are a consideration in the determination of the reasonableness of the compensation. Fringe benefits should be accrued in the period incurred, including accrued leave if employees have an irrevocable right to be compensated during employment or upon termination of employment.

Generally, the cost of annual leave is recognized when it is earned by the employee, and holiday and other types of leave are considered a cost to the extent of actual compensation to employees.

2d. Statement of Total Costs

Examples of the Statement of Total Costs (STC) are shown in Section III of this Guide; Exhibits D or E, for the simplified method or direct allocation method, respectively (see top portion in yellow).

This document should contain all line items of costs included in the entities' chart of accounts (and CPS) with applicable columns for direct costs (by cost center), indirect costs, (overhead, G&A, etc.) and unallowable costs (if applicable).

The total costs should reconcile to the entities' financial statements. If it does not reconcile, the entity should provide a separate schedule supporting all differences.

2e. Statement of Indirect Costs

Examples of the Statement of Indirect Costs (as part of the STC) are shown in Exhibits D or E, for the simplified method or direct allocation method, respectively (see bottom portion of spreadsheets shown in blue and green).

This document should contain all line items of costs included in the indirect cost "pool(s)", the applicable allocation base(s), and the resulting indirect cost rate(s).

The allocation base should be traceable to the statement of total costs. If it is not clearly traceable, an additional schedule <u>should be</u> provided to supporting the reconciliation.

4. Certificate of Indirect Costs

The required certificate is shown in Section III of this Guide.

A "Certificate of Indirect Costs" must be signed on behalf of the organization, by an individual at a level no lower than executive director or chief financial officer of the organization that submits the proposal.

5. List of Grants and Contracts

A sample spreadsheet showing a list of grants and contracts is available in Section III of this Guide.

D. Indirect Cost Proposal – DCD's Review Procedures

Some issues that may be raised by a DCD negotiator during, or after, the review of an indirect cost rate proposal, usually result from the following procedures. Knowing these procedures while preparing an indirect cost rate proposal, organizations may enable us to avoid such issues from occurring.

- Determine that the applicable cost principles (stated in the Circulars or the FAR) were followed.

- Review the organization chart for a visual picture of the flow of responsibility, identification of areas of common costs, and the location of those areas in which federally-funded activity exists

- Perform a mathematical verification of the proposal.

- Determine that the proposal reconciles with the supporting audit, official budget or financial statements.

- Review the financial report for any indication of activities which may have been omitted from the indirect cost proposal, i.e., the omission of restricted fund costs or the existence of an affiliated organization receiving supportive service from the parent organization.

- Determine that the cost centers in the indirect cost pool pertain to functions that are supportive of all direct activity.

- Determine that costs that are statutorily unallowable, or for reasons of non-allocability, have been eliminated from the indirect cost pool. Determine whether these unallowable or non-allocable items should be added to the distribution base.

- Determine that "pass-through" funds have been excluded from the base.

- Review the analysis of direct costs for the determination of:

  a. Consistency in charging specific items of cost.
  b. The selection of an appropriate base for allocating indirect costs.

- Review the contract/grant budget and payments, or contractor/grantee records, for a determination of: (if deemed feasible under the circumstances)

  a. The direct funding of indirect costs.
  b. Any limitations placed upon the full recovery of indirect costs, i.e. ceiling rates or amounts.
  c. Total Federal funds involved.

- Check with the appropriate Federal Program Manager for any problems he/she may be aware of relating to the charging of costs.

E. Administration Limits and Indirect Cost Claims

Various DOL funding instruments have statutory or regulatory limitations on the costs of "administration". These costs can be both personnel and non-personnel and both direct and indirect. The costs of administration are those portions of reasonable, necessary and allowable costs associated with the overall program management and administration and which are not directly related to the provision of services to participants or otherwise allocable to the program cost objectives/categories

Based on the above information, the statutory or regulatory limitation affects the combined claims for indirect costs and direct administration costs. Generally, direct administration costs differ from indirect charges in that the latter are considered organization-wide costs.

Examples of functions that are classified as direct "administration" are as follows:

- Overall **program** management, program coordination, and office management functions, including the salaries and related costs of the executive director, project director, and project evaluator **when directly allocated**.
- Preparing **program** plans, budgets schedules, and related amendments.
- Monitoring of programs, projects, sub-recipients and related systems and processes.
- Developing systems and procedures, including management information systems, for assuring compliance with program requirements.
- Preparing reports and other documents related to the **program** requirements.
- Evaluating program results against stated objectives; and
- Performing administration services such as **program specific** payroll, accounting, auditing or legal activities.

Examples of non-labor costs for direct administration include:

- Costs for goods and services required for administration of the **program**, including such goods and services as the rental or purchase of equipment, utilities, office supplies, postage, and rental and maintenance of office space.
- Travel costs incurred for official business in carrying out **program** management and administrative activities.

SECTION III

Sample Exhibits to Support Indirect Cost Rate Proposals

SECTION III
Sample Exhibits to Support
Indirect Cost Rate Proposals

Exhibits	Description	Page Numbers
Exhibit A	Personnel Cost Worksheet	III-2
Exhibit B	Allocation of Personnel Worksheet	III-4
Exhibit B-1	Time Distribution Report	III-5
Exhibit C	Statement of Employee Benefits	III-6
Exhibit D or E *	Statement of Total Costs, Indirect Rate Calculation and Distribution of Indirect Costs	III-7 or III-9
Exhibit F	Cost Policy Statement	III-14
Exhibit G	Certificate of Indirect Costs	III-19
Exhibit H	Listing of Federal Grants and Contracts	III-20

* Examples of the Statement of Total Costs (STC) are shown in this Section, as applicable, for the simplified method or direct allocation method. Organizations may select either method (Exhibit D or E) based on their cost allocation methodology.

Exhibit A

Sample - Personnel Cost Worksheet

Fill in: Final or Provisional & Organization's Fiscal year

Position	Annual Salary (A)	FICA (B)	State UI (C)	Worker's Comp. (D)	Health Insurance (E)	Retirement (F)	Total Benefits	Total Personnel Costs
	a						b	(a+b)
Executive Director	$ 60,000	$ 4,311	$ 240	$ 600	$ 2,400	$ 4,800	$ 12,351	$ 72,351
Administrative Assistant	22,000	1,683	240	220	2,400	1,760	6,303	28,303
Controller	45,000	3,443	240	450	2,400	3,600	10,133	55,133
Accountant (3)	90,000	6,885	720	900	7,200	7,200	22,905	112,905
Program Planner (4)	120,000	9,180	960	1,200	9,600	9,600	30,540	150,540
Field Operations Director	35,000	2,678	240	350	2,400	2,800	8,468	43,468
Area Coordinator *	15,000	1,148	240	150	1,400	1,200	4,138	19,138
Program Specialist (2)	25,000	1,913	480	250	4,800	2,000	9,443	34,443
Personnel Director	40,000	3,060	240	400	2,400	3,200	9,300	49,300
Personnel Clerk (3)	60,000	4,590	720	600	7,200	4,800	17,910	77,910
MIS Director	45,000	3,443	240	450	2,400	3,600	10,133	55,133
Head Start Director	45,000	3,443	240	450	2,400	3,600	10,133	55,133
Data Entry Clerk *	12,000	918	240	120	1,200	960	3,438	15,438
All Other Positions **	700,000	53,550	12,000	7,000	120,000	56,000	248,550	948,550
TOTAL	$ 1,314,000	$ 100,245	$ 17,040	$ 13,140	$ 168,200	$ 105,120	$ 403,745	$ 1,717,745

(A) In this example, vacation, holiday, sick leave, and other paid absences were included in salaries and claimed on other grants, contracts, or agreements, as part of salary costs. Separate claims for these absences are not made. Refer to Exhibit C.

(B) FICA taxable wages were computed at 6.2% of $55,500 per employee, and 1.45% based on $130,200 per employee.

(C) State unemployment compensation taxable wages were computed on the 1st $8,000 for 71 employees at 3% ($8,000 x 71 x 3% = $17,040)

(D) Worker's compensation was estimated at 1% of salaries (1% x $1,314,000 = $13,140).

(E) Health insurance was computed at $200 per month per employee.

(F) Retirement was computed at 8% of an employee's annual salary.
Example: Executive Director's annual salary: $60,000 x 8% = $4,800.

* This represents employees who will work less than a twelve month period due to a grant/contract not being reviewed.

** These positions have been consolidated for illustrative purposes only; all personnel positions that require charging time to more than one cost objective must be identified separately on this exhibit.

Note: Salaries and fringes included in this exhibit are for illustrative purposes only.

Exhibit A-1

Heading from Exhibit A	Explanation
Position	All staff salaries.
Annual Salary	Actual or estimated salary amount for the year depending on type of proposal (final or provisional).
FICA	Actual or estimated amount for the year depending on type of proposal. (final or provisional). Should be computed in accordance with the applicable rates This is the organization's share.
State Unemployment Compensation	Actual or estimated amount for the year depending on type of proposal. (final or provisional). Should be computed in accordance with the applicable rates This is the organization's share.
Worker's Compensation	Actual or estimated amount for the year depending on type of proposal. (final or provisional). Cost should be obtainable from the insurance policy or agent.
Health Insurance	Actual or estimated amount for the year depending on type of proposal. (final or provisional). Cost should be obtainable from the insurance policy or agent.
Retirement	Actual or estimated amount for the year depending on type of proposal. (final or provisional). Cost should be based on the organization's retirement plan.

Exhibit B

Sample - Allocation of Personnel Worksheet

Fill in: Final or Provisional & Organization's Fiscal year

Position	Annual Salary	Indirect Costs	Direct Costs (a+b)	Federal Programs a: U.S. Dept. of Labor	Federal Programs a: U.S. Dept. of HHS	Federal Programs a: U.S. Dept. of Education	Non-Federal Programs b: State Service Delivery Agency	Non-Federal Programs b: Fundraising	Non-Federal Programs b: Private Foundation Commercial
Executive Director	$60,000	$54,000	$6,000					$6,000	
Administrative Assistant	22,000	22,000							
Controller	45,000	45,000							
Accountant	90,000	90,000							
Program Planner (4)	120,000	12,000	108,000	$72,000	$12,000	$18,000	$6,000		
% of Distribution	***100%***	***10%***	***90%***	***60%***	***10%***	***15%***	***5%***		
Field Operations Director	35,000	5,250	29,750	8,750	5,250	8,750	5,250		$1,750
% of Distribution	***100%***	***15%***	***85%***	***25%***	***15%***	***25%***	***15%***		
Area Coordinator *	15,000		15,000				15,000		
Program Specialist	25,000		25,000	20,000	5,000				
% of Distribution	***100%***		***100%***	***80%***	***20%***				
Personnel Director	40,000	40,000							
Personnel Clerk (3)	60,000	60,000							
MIS Director	45,000	45,000							
Head Start Director	45,000		45,000	9,000	36,000				
% of Distribution	***100%***		***100%***	***20%***	***80%***				
Data Entry Clerk *	12,000		12,000	9,000		3,000			
All Other Positions **	700,000		700,000	280,000	105,000	175,000	105,000		35,000
TOTAL	$1,314,000	$373,250	$940,750	$398,750	$163,250	$204,750	$131,250	$6,000	$36,750

* This represents an employee who will work less than a twelve month period.

** These positions have been consolidated for illustrative purposes only. All personnel positions that require time to be charged to more than one cost objective must be identified separately in this worksheet.

Note: The salaries included in this exhibit are for illustrative purposes only.

Exhibit B-1
Sample - Time Distribution Report

USA Company
1776 Demoracy Boulevard
Washington, D.C. 20099

Employee Name: _____

	Sunday	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday	Overtime	Holiday	Sick Leave	Annual Leave	Leave Without Pay	Other	Total
1st Week														
Project # 1														0
Project # 2														0
Project # 3														0
Project # 4														0
Project # 5														0
Overhead														0
G&A														0
Subtotal	0	0	0	0	0	0	0	0	0	0	0	0	0	0
2nd Week														
Project # 1														0
Project # 2														0
Project # 3														0
Project # 4														0
Project # 5														0
Overhead														0
G&A														0
Subtotal	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total	0	0	0	0	0	0	0	0	0	0	0	0	0	0

Employee Signature _____ Date: _____ Supervisor Signature _____ Date: _____

Exhibit C

Sample - Statement of Employee Benefits

Fill in: Final or Provisional & Organization's Fiscal year

	Method A	Method B	
Annual Leave Earned		$50,384	
Sick Leave Taken		25,269	
Holidays		50,384	
Subtotal - Release Time		$126,037	a
FICA	$100,245	$100,245	
State Unemployment Compensation	17,040	17,040	
Worker's Compensation Insurance	13,140	13,140	
Medical Insurance	168,200	168,200	
Pension	105,120	105,120	
SubTotal	$403,745	$403,745	b
Total Employee Fringe Benefits	$403,745	$529,782	(a+b)
Allocation Base:			
Total Salaries	$1,314,000	$1,314,000	
Less: Release Time		126,037	
Chargeable Salaries		$1,187,963	
Employee Fringe Benefit Rate			
Fringe Benefits	$403,745	$529,782	
Allocation Base	$1,314,000	$1,187,963	
Fringe Rate	30.73%	44.60%	

NOTE:

Method A - For estimating purposes on budgets, grantees/contractors include release time as personnel salary costs; i.e. total salary.

Method B - The fringe benefit pool includes time for vacation, holiday, and sick leave and is distributed through a fringe benefit rate.

The decision to use either method will depend on the grantee/contractor's accounting system and time distribution system.

Introduction to Sample Exhibit D
<u>Simplified</u> Allocation Method

The **Simplified Method** is used whenever the major functions of an organization benefit from its indirect costs to approximately the same degree. The allocation of indirect costs may be accomplished by:

(1) classifying the total cost for the base period (usually the organization's fiscal year) as either direct or indirect and
(2) dividing the total allowable indirect costs (net of applicable credits) by an equitable distribution base.

The result of this process is an indirect cost rate which is used to distribute indirect costs to individual Federal financial assistance programs and contracts. The rate should be expressed as the percentage which the total amount of allowable indirect costs bears to the base selected. This method may also be used where:

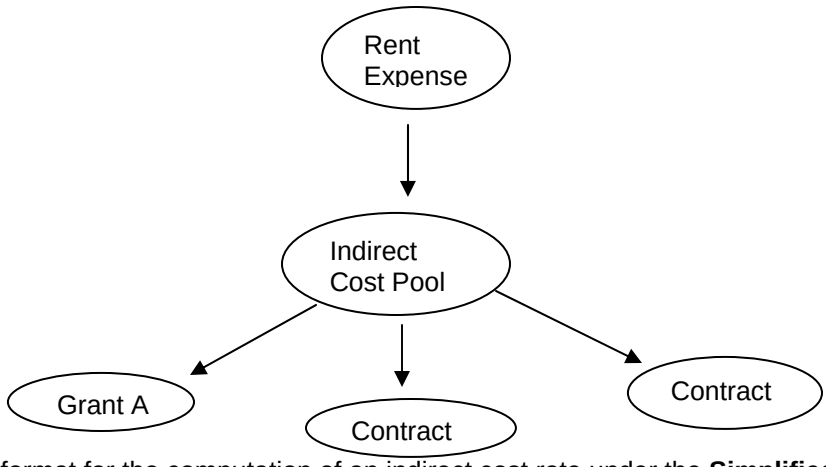
(1) the organization has only one major function encompassing a number of individual projects or activities, and/or
(2) where the level of Federal awards to that organization is relatively small.

Both the direct costs and the indirect costs shall exclude capital expenditures and unallowable costs. However, unallowable costs must be included in the direct cost base (if they represent activities to which the indirect costs are properly allocable).

The distribution base may be:

(1) total direct costs (excluding capital expenditures and other distorting items, such as flow-through funds, the portion of each subaward in excess of $25,000, etc.),
(2) direct salaries and wages,
(3) total costs less G&A expenses (commercial contractors),
(4) another base which results in an equitable distribution.

Under the Simplified Method, for example, rent expense would be entirely classified as indirect costs and distributed to benefiting activities on one of the bases described above. A pictorial of this example is shown below:



A sample format for the computation of an indirect cost rate under the **Simplified Method** follows.

EXHIBIT D

Sample - Statement of Total Costs - All Funds - and
Distribution of Indirect Costs to the Cost Centers using two Sample Methods of Allocation [6] (3 STEPS)
Simplified Allocation Method

Fill in: Final or Provisional & Organization's Fiscal year

STEP 1 - Do Statement…

Budget Category	Total Costs	Less: Direct Exclusions and Indirect Unallowable Costs	Indirect Costs (3)	"Modified" Total Direct Costs (MTDCs)	Federal Programs: Total Federal Programs	Federal Programs: Dept. of Labor	Federal Programs: Other Federal Programs	Non-Federal: Total Non-Federal Programs
	A = B+C+D	B	C	D = E+F	E			F
Salaries	$1,314,000		$373,250	$940,750	$766,750	$515,000	$251,750	$174,000
Fringe Benefits (30.73%)	403,746		114,686	289,060	235,596	158,242	77,354	53,464
Total Personnel Costs	1,717,746		487,936	1,229,810	1,002,346	673,242	329,104	227,464
Consultant Services	26,000		14,000	12,000	10,300	10,300		1,700
Staff Travel	94,000		20,000	74,000	67,300	43,600	23,700	6,700
Bad Debts	10,000	$10,000 (1)						
Office Rent	170,000		170,000					
Consumable Supplies	161,000		11,000	150,000	22,500	15,000	7,500	127,500
Subcontracts	175,000	107,000 (2)		68,000	10,200	8,200	2000	57,800
Purchase, Lease of Equipment	82,000	22,100 (2)	59,900					
Telephone	109,400		55,000	54,400	8,200	6,200	2,000	46,200
Entertainment	1,800	1,800 (1)						
Printing and Reproduction	48,000		11,000	37,000	5,500	3,500	2,000	31,500
Insurance and Bonding	42,000		42,000					
Postage and Delivery	34,000		5,100	28,900	4,300	2,300	2,000	24,600
Depreciation	28,800		8,800	20,000	3,000	2,000	1,000	17,000
Emergency Assistance	54,000	54,000 (2)						
Training Materials	82,000			82,000	12,300	10,000	2,300	69,700
Participant Support Costs	184,000	184,000 (2)						
Total Non-Personnel Costs	$1,302,000	$378,900	$396,800	$526,300	$143,600	$101,100	$42,500	$382,700
TOTAL	$3,019,746 (4)	$378,900	$884,736	$1,756,110	$1,145,946	$774,342	$371,604	$610,164

STEP 2 - Rate Calculation…

Indirect Cost Rate Calculation*

Indirect Costs	$884,736
Method A - Total Direct Salaries & Benefits	1,229,810
Indirect Rate	71.94%
Indirect Costs	$884,736
Method B - MTDCs	$1,756,110
Indirect Rate	50.38%

STEP 3 - Distribution to the Cost Centers

Distribution of Indirect Costs (ICs) - (5)

		a			b	Total a+b
Method A (6)	Allocation Base	1,002,346	673,242	329,104	227,464	1,229,810
	Times Indirect Rate	71.94%	71.94%	71.94%	71.94%	
	Equals Allocable Share of ICs	$721,096	$484,336	$236,760	$163,640	$884,736
Method B (6)	Allocation Base	1,145,946	$774,342	$371,604	610,164	1,756,110
	Times Indirect Rate	50.38%	50.38%	50.38%	50.38%	
	Equals Allocable Share of ICs	$577,333	$390,117	$187,216	$307,403	$884,736
	Difference between A & B (A-B)	$143,764	$94,219	$49,545	($143,764)	

(1) and (2) - Refer to notes of Exhibit E for explanations.

(3) This column must be split to show multiple rate structures (G&A, onsite, offsite, if applicable.

(4) Must reconcile to the Financial Statements.

(5) Is the result of multiplying the indirect rate times the allocation base for each cost center.

(6) For sample purposes only. Other allocation methods may be proposed as long as it provides and equitable and rational distribution of indirect costs. Contact DCD for more details.

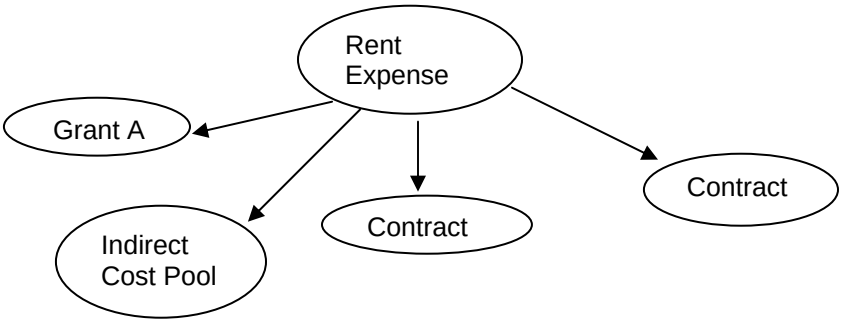
Note: The costs included in this exhibit are for illustrative purposes only.

Introduction to Sample Exhibit E
Direct Allocation Method

The **Direct Allocation Method** is used by organizations that treat all costs as direct costs except general administration and expenses. These organizations generally separate their costs into three (3) basic categories:

(1) general administration and expenses,
(2) fund raising, and
(3) other direct functions (including projects performed under Federal awards).

Joint costs, such as depreciation, rental expense, operation and maintenance facilities, telephone expenses, and the like are prorated individually as direct costs to each category and to each award or other activity using a base most appropriate to the particular cost being prorated. A pictorial example of the proration of rental expense is shown below:



*** Note that the only rent expense allocated to the indirect pool is the indirect portion of rent expense as a whole.**

Under this method, indirect costs consist exclusively of general administration and general expenses. In all other respects, the organization's indirect cost rates shall be computed in the same manner as demonstrated in Exhibit D.

This method is acceptable provided each joint cost is prorated using a base which accurately measures the benefits provided to each award or other activity. A listing of suggested allocation bases is included in Exhibit E – Suggested Allocation Bases.

A sample format for the computation of an indirect cost rate under the **Direct Allocation Method** follows.

EXHIBIT E

Sample - Statement of Total Costs - All Funds - and
Distribution of Indirect Costs to the Cost Centers using two Sample Methods of Allocation [6] (3 STEPS)
Direct Allocation Method

Fill in: Final or Provisional & Organization's Fiscal year

STEP 1 - Do Statement...

Budget Category	Total Costs	Less: Direct Exclusions and Indirect Unallowables Costs	Indirect Costs (3)	Modified Total Direct Costs (MTDCs)	Federal Programs: Total Federal Programs	Dept. of Labor	Dept. of HHS	Dept. of Education	Non-Federal Programs: Total Non-Federal Programs	Private Foundation	Fund-raising
	A = B+C+D	B	C	D = E+F	E				F		
Salaries	$1,314,000		$373,250	$940,750	$766,750	$398,750	$163,250	$204,750	$174,000	$168,000	$6,000
Fringe Benefits (30.73%)	403,746		114,686	289,060	235,596	122,522	50,161	62,913	53,464	51,620	1,844
Total Personnel Costs	1,717,746		487,936	1,229,810	1,002,346	521,272	213,411	267,663	227,464	219,620	7,844
Consultant Services	26,000		14,000	12,000	10,300	7,000		3,300	1,700	1,700	
Staff Travel	94,000		20,000	74,000	67,300	28,100	12,600	26,600	6,700	6,700	
Bad Debts	10,000	10,000 (1)									
Office Rent	170,000		32,000	138,000	113,200	46,900	27,600	38,700	24,800	22,000	2,800
Consumable Supplies	161,000		11,000	150,000	132,000	36,000	43,500	52,500	18,000	18,000	
Subcontracts	175,000	107,000 (2)		68,000	50,000			50,000	18,000	18,000	
Purchase, Lease of Equipment	82,000	22,100 (2)	10,700	49,200	39,900	16,700	8,400	14,800	9,300	9,300	
Telephone	109,400		18,600	90,800	73,600	30,900	15,400	27,300	17,200	13,600	3,600
Entertainment	1,800	1,800 (1)									
Printing and Reproduction	45,800		11,000	34,800	32,100	11,800	4,800	15,500	2,700	1,900	800
Insurance and Bonding	41,800		8,400	33,400	29,200	9,100	8,700	11,400	4,200	4,200	
Postage and Delivery	35,500		5,100	30,400	24,500	12,100	4,900	7,500	5,900	2,400	3,500
Depreciation	29,700		8,800	20,900	20,000	10,000	10,000		900	900	
Emergency Assistance	54,000	54,000 (2)									
Training Materials	82,000			82,000	76,300	36,100		40,200	5,700	5,700	
Participant Support Costs	184,000	184,000 (2)									
Total Non-Personnel Costs	1,302,000	378,900	139,600	783,500	668,400	244,700	135,900	287,800	115,100	104,400	10,700
TOTAL	$3,019,746	(4) $378,900	$627,536	$2,013,310	$1,670,746	$765,972	$349,311	$555,463	$342,564	$324,020	$18,544

STEP 2 - Rate Calculation...

Indirect Cost Rate Calculation

Indirect Costs	$627,536
Method A - Total Direct Salaries & Benefits	1,229,810
Indirect Rate	51.03%
Indirect Costs	$627,536
Method B - MTDCs	$2,013,310
Indirect Rate	31.17%

STEP 3 - Distribution to the Cost Centers

Distribution of Indirect Costs (ICs) - (5)

		a				b			Total a+b
Method A (6)	Allocation Base	1,002,346	521,272	213,411	267,663	227,464	219,620	7,844	1,229,810
	Times Indirect Rate	51.03%	51.03%	51.03%	51.03%	51.03%	51.03%	51.03%	
	Equals Allocable Share of ICs	$511,468	$265,990	$108,897	$136,581	$116,068	$112,066	$4,003	627,536
Method B (6)	Allocation Base	1,670,746	$765,972	$349,311	$555,463	342,564	$324,020	$18,544	2,013,310
	Times Indirect Rate	31.17%	31.17%	31.17%	31.17%	31.17%	31.17%	31.17%	
	Equals Allocable Share of ICs	$520,761	$238,749	$108,878	$173,134	$106,775	$100,995	$5,780	627,536
	Difference between A & B (A-B)**	($9,293)	$27,241	$19	($36,554)	$9,293	$11,071	($1,777)	

(1) and (2) - Refer to notes of Exhibit E for explanations.
(3) This column must be split to show multiple rate structures (G&A, onsite, offsite, if applicable.
(4) Must reconcile to the Financial Statements.
(5) Is the result of multiplying the indirect rate times the allocation base for each cost center.
(6) For sample purposes only. Other allocation methods may be proposed as long as it provides and equitable and rational distribution of indirect costs. Contact DCD for more details.

Note: The costs included in this exhibit are for illustrative purposes only.

Notes to Exhibit E

(1) Examples of expressly unallowable costs in this exhibit include entertainment expense and bad debts. Other indirect unallowable costs include lobbying costs, bad debts or allowances for doubtful accounts, fines and penalties, losses on Federal or non-Federal projects, provisions for contingencies, and charitable contributions.

Note: the costs included in the indirect cost pool (as well as direct costs) shall be net of applicable credits (OMB Circular A-122, Attachment A, paragraph 5).

(2) Examples of direct costs exclusions using MTDCs as the allocation base in this exhibit include amounts over the first $25,000 of each subcontract, purchase and lease of equipment, emergency assistance and participant support costs. See OMB Circular A-122, Attachment A, paragraph D.2.c. for more details. Details of the direct costs exclusions are as follows:

a. The portion of subcontract costs in excess of $25,000 each. As a general rule, the organization and DCD agree that only the first $25,000 of each subcontract, subgrant and professional service agreement should be included in the distribution base. This recognizes that grantees/contractors expend a minimal amount of indirect costs on subcontracts.

b. Equipment and other capital expenditures, such as major renovations, alterations and improvements.

c. Participant support costs. This represents payments for stipends, travel allowances and registration fees paid to participants (but not employees) in connection with training projects.

d. Payments to participating agencies, e.g. OJT contractors, (flow-through- funds). If the organization is significantly involved in the administration or oversight of the participating agencies, a special rate might be necessary for that activity.

Other information

Exclusions of direct costs for the MTDC base are only presented in this exhibit for allocation purposes; it is not related to direct costs reimbursement.

Note that if the organization's unallowable activities (lobbying, fundraising, membership) include salaries, occupy space, and benefit from the organization's indirect cost, they should be included in the direct cost allocation base for the purpose of determining the indirect cost rate and be allocated their share of the organization's indirect costs. (Refer to OMB Circular A-122, Attachment A, Paragraphs B.3. & B.4.). This sample exhibit includes these types of costs in the MTDC base.

From the examples provided on Exhibit D or E, the data can be used to compute either an indirect cost rate based on direct salaries and wages including applicable fringe benefits, or an indirect cost rate based on modified total direct costs (MTDCs). As stated in OMB Circular A-122, Attachment A, paragraph D.2.c., the distribution base may be direct salaries and wages, total direct cost, or another base which results in an equitable distribution to all activities that receive benefit from the indirect cost pool. S

Since most organizations receiving grants are labor intensive, using a distribution base of direct salaries and wages including applicable fringe benefits is most often recommended by DCD.

Exhibit E
Suggested Allocation Bases

The allocation base selected by the non-profit organization or commercial organization must be:

(1) reasonable and consistently applied to direct costs,
(2) supported by accurate and current data,
(3) appropriate to the particular cost being distributed, and
(4) one which results in an accurate measure of the benefits provided to each activity of the organization.

The following are suggested allocation bases:

TYPE OF SERVICE	SUGGESTED BASIS FOR ALLOCATION
Accounting	Number of transactions processed.
Auditing	Direct audit hours.
Budgeting	Direct hours of identifiable services of employees of central budget.
Building lease management	Number of leases.
Data processing	System usage.
Disbursing service	Number of checks or warrants issued.
Employees retirement system administration	Number of employees contributing.
Insurance management service	Dollar value of insurance premiums.
Legal services	Direct hours.
Mail and messenger	Number of documents handled or service employees served.
Motor pool costs including automotive management	Miles driven and/or days used.

Office machines and equipment maintenance repairs	Direct hours.
Office space use and related costs(heat, light, janitor service, etc.)	Sq. ft. of space occupied.
Organization and management services	Number of employees.
Payroll services	Number of employees.
Personnel administration	Number of employees.
Printing and reproduction	Direct hours, job basis, pages printed, etc.
Procurement service	Number of transactions processed.
Local telephone	Number of telephone instruments.
Health services	Number of employees.
Fidelity bonding program	Employees subject to bond or penalty amounts.

NOTE: Any method of allocation can be used which will produce and equitable and rational distribution of costs.

Exhibit F

SAMPLE: Cost Policy Statement (CPS) for Indirect Cost Rate Proposal

The following CPS is intended to be used as guidance for organizations that seek reimbursement for indirect costs under Federal awards. This model assumes that ABC Organization uses

A. the direct allocation basis to charge individual elements of costs. That is, in addition to direct costs, ABC has in place accounting procedures which enable it to direct charge some costs that would otherwise be considered indirect costs (see, for example, the description below on how the photocopy costs are charged).

B. the direct salaries and wages including applicable fringe benefits, to allocate the indirect cost "pool".

IMPORTANT NOTE: The CPS should have a detailed description of all the cost elements in the indirect cost proposal. It should also include the cost element allocation methodology.

* * * *

auditable labor distribution reports which reflect the actual activities of employees.

2. Indirect Costs - The following staff charge 100% of their salary costs indirectly:

   - Office Business Manager
   - Secretary/Receptionist

3. Mixed Charges - The following employees may charge their salary costs to both direct and indirect activities:

   - Executive Director
   - Administrative Assistant

   The distinction between direct and indirect is primarily based on functions performed. For example, when the positions shown are performing functions that are necessary and beneficial to all programs they are indirect. When functions are specific to one or more programs they are direct because they do not benefit all programs.

   Auditable labor distribution records which reflect the actual activities of employees are maintained to support the mix of direct/indirect charges. The time records are certified by the Executive Director or designee.

B. Fringe Benefits

ABC contributes to the following fringe benefits for its employees:

1. unemployment insurance,
2. worker's compensation,
3. F.I.C.A., health insurance and
4. matching contributions to a defined benefit pension plan.

Treatment of Fringe Benefits: ABC's accounting system tracks fringe benefit costs by individual employee and charges those costs directly or indirectly in the same manner as salary and wage costs are recorded. ABC does not need to have a fringe benefit rate established.

Treatment of Paid Absences - Release time costs (vacation leave earned, sick leave used, and holiday pay) are considered part of salary costs. Consequently, separate claims for release time costs are not made. ABC's accounting system records release time as a direct or indirect cost in the same manner that salary costs are recorded. Vacation leave earned but not used during each fiscal period is recorded as a cost in the period earned.

C. Travel

Travel costs may be charged as either direct or indirect costs depending on the purpose of the trip.

For example:

The Executive Director of Company ABC travels to a regional office to give employees a quarterly update. This trip is indirect in nature and should be

charged as an indirect cost. However, if the Executive Director of Company ABC travels to a regional office to perform a specific task for a contract, the trip would be considered a direct cost.

D. Board Expenses

Board expenses charged on an indirect basis are for travel to/from Board meetings (limited to expenses allowed under the Federal Travel Regulations) and an annual fee of $250 paid to each Board member.

Other Board expenses are absorbed by ABC and are not charged either directly or indirectly to Federal contracts or grants.

E. Supplies and Material

To the maximum extent possible, office supplies and materials are direct charged to the contract/grant which uses the supplies or materials.

Supplies and materials used by staff who are engaged in indirect activities will be charged on an indirect basis.

F. Occupancy Expenses

Rent - ABC occupies space it leases from Lessor Corporation. The lease provides for equal monthly payments during the term of the lease. Monthly lease costs are allocated, based on: square footage, directly and indirectly as follows:

1. Direct Costs - The cost of space occupied by staff whose salaries are directly charged is charged directly.

2. Indirect Costs - The cost of space occupied by staff whose salaries are indirectly charged is charged indirectly. The cost of space for staff whose salaries are charged on a mixed basis will be allocated on a mixed basis in the same ratio as their salaries are allocated.

   The cost of space required for common areas (hallways, restrooms, and ABC's conference room) will be accounted for as an indirect cost.

   ABC has developed a floor plan which identifies what areas are designated as direct and indirect charge space (based on square footage).

G. Utilities

ABC's lease includes the cost of all utilities except electricity. The cost of electricity is charged directly and indirectly in the same ratio as its space costs are charged.

H. Communications

1. A log is maintained of all fax transmissions. The cost of fax services is charged either directly or indirectly based upon whether a direct or indirect activity benefits from the transmission.
2. Long distance telephone calls are charged either directly or indirectly based upon whether a direct or indirect activity benefits from the transmission.

3. Local telephone service costs are prorated to direct and indirect charges based upon the number of telephone instruments assigned to ABC. Each telephone instrument is identified to either an indirect or a direct activity. For example:

   ABC has 50 telephone instruments assigned to it:

   (1) Nine (9) of the 50 instruments are assigned to the program funded by HHS. Therefore, 9/50ths of the monthly local service telephone charges are direct charged to the HHS grant.

   (2) Five (5) of the instruments are assigned to indirect staff. Therefore, 5/50ths of the monthly local service charges are charged indirectly.

   No telephone instruments are charged on a mixed basis since the costs incurred on that basis are immaterial in amount.

4. ABC uses a meter system for postage charges. The postage meter has been programmed to identify the specific program or activity to charge costs against. Express mail costs are also specifically identified to the program or activity incurring the cost.

I. Photocopying and Printing

ABC maintains a photocopy activity log. From this log, ABC is able to prorate its photocopy expenses to each program based on the specific volume of copies made for each program.

Administrative personnel will record copies made to the benefiting program to the maximum extent practical. In situations where the photocopies being made by administrative personnel cannot be identified to a specific program and the matter being copied relates to the activities of ABC in general, the cost of such copies will be charged to the "Indirect Cost-Expense" account.

Printing expenses are charged to the benefiting activity.

J. Outside Services

ABC incurs outside services costs for its annual audit, legal fees, and for staff development specialists.

1. The cost of the annual audit is charged indirectly.
2. In general, legal fees are charged directly to the benefiting program or activity.
3. Legal fees that are not identifiable to specific direct programs are charged indirectly.

K. Capital Items

Capital expenditures are charged directly to programs only in cases where a contract or grant specifically authorizes such charges. No capital item is charged indirectly.

The cost of capital items is purchased with non-Federal funds are recovered through depreciation charges. ABC's capitalization threshold is $500.

L. Depreciation

The cost of capital items purchased with non-Federal funds which are used in a manner which benefits Federal programs is recovered through depreciation charged. ABC recovers the cost of capital items using straight line depreciation methods in accordance with generally accepted accounting principles. Depreciation is charged indirectly.

M. Service to Members

The cost of activities performed primarily as a service to members, clients, or the general public <u>are classified as direct costs</u> and bear their fair share of indirect costs. These activities include:

1. maintenance of membership rolls,
2. subscriptions,
3. publications, and related functions, providing services and information to members, legislative or administrative bodies, or the public;
4. promotion, lobbying, and other forms of public relations;
5. meetings and conferences except those held to conduct the general administration of ABC Organization;
6. maintenance, protection, and investment of special funds not used in operation of ABC; and administration of group benefits on behalf of members or clients including life and hospital insurance, annuity or retirement plans, financial aid, etc.

N. Unallowable Costs

ABC recognizes that unallowable costs, as defined in OMB Circular A-122 (2 CFR Part 230) or the FAR, cannot be charged to Federal awards and has internal controls in place to insure that this is followed. Examples of unallowable costs are:

1. advertising and public relations,
2. entertainment/alcoholic beverages,
3. capital expenditures,
4. defense claims by or against the Federal Government,
5. interest,
6. lobbying and fund raising.

_____ _____
Signature Date

_____
Title

ABC Organization
1111 Main Street
City, USA 12345

Exhibit G

CERTIFICATE OF INDIRECT COSTS

I have reviewed the indirect cost proposal dated_____ . This is to certify that:

1. All costs included in the proposal(s) submitted on_____ to establish provisional, final, or fixed indirect cost rate(s), for the period_____, through _____ are allowable in accordance with the requirements of grants/contracts to which they apply and with the Federal cost principles; i.e., (please check those applicable cost principles):

   _____ OMB Circular A-87 (2CFR Part 225) Cost Principles for State, Local and Federally recognized Indian Tribal Governments.
   _____ OMB Circular A-122 (2 CFR Part 230) Cost Principles for Non-Profit Organizations
   _____ Federal Acquisition Regulation (FAR), Subpart 31.2, Cost Principles for Commercial Organizations.

2. This proposal does not include any costs which are unallowable under applicable Federal cost principles. For example:

   advertising, contributions and donations, bad debts, entertainment costs, fines and penalties, general government expenses, and defense of fraud proceedings;

3. The requirements standards on lobbying costs for non-profit (A-122) and commercial (FAR) organizations have been complied with for the fiscal year ended _____, and

4. All costs included in this proposal are properly allocable to U.S. Department of Labor grants/contracts on the basis of a beneficial or causal relationship between the expenses incurred and the agreements to which they are allocated in accordance with applicable Federal cost principles.

Subject to the provisions of the Program Fraud Civil Remedies Act of 1986, (31 USC 3801 et seq.), and the Department of Labor's implementing regulations, (29 CFR Part 22), the False Claims Act (18 USC 287 and 31 USC 3729); and the False Statements Act (18 USC 1001), I declare to the best of my knowledge the foregoing is true and correct.

Grantee/Contractor: _____

Signature: _____

Name of Authorized Official: _____

Title: _____

Date: _____

Exhibit H

Organization ABC
Listing of Grants and Contracts
Provisional (or Final) Indirect Cost Proposal for 12/31/06

	Grantor	DOL SubAgency*	Grant/Contract Amount	Period of Performance	Indirect Cost Limitations or CAP Limitations	Grant/Contract Award Notice Provided as part of proposal
Federal	U.S. Dept. of Labor	ETA	$5,000,000	1/1/06 to 12/31/08	20% of Direct Costs	Yes
	U.S. Dept of HHS		$3,500,000	7/1/06-6/30/09	5% of Total Award	Yes
Non-Federal	Various		$500,000	1/1/06-12/31/06		

* If applicable.

SECTION IV

Common Indirect Cost Problems

SECTION IV

Common Indirect Cost Problems

A. **Introduction**

This section presents examples of some common problems with organizations disclosed in OIG audits. The problems are summarized below under the following categories:

1. Timekeeping Systems
2. Consistent Treatment and Specific Identification of Costs
3. Costs of "Unallowable Activities" Credits
4. Indirect Cost Allocation Base
5. Expressly Unallowable Costs
6. Inter-organizational Transfers and Related-party Transactions
7. Lease Incentives and Advance Understandings
8. Budget Limitations Unsupported

B. **Examples of Problems**

1. Timekeeping Systems

To be allowable, labor costs, whether charged directly or indirectly to DOL grants/contracts, must be based on accurate time sheets reflecting the actual activities of all employees. The time sheets must account for the "total activity" for which employees are compensated and which are required in fulfillment of their obligations to the organization. In many cases, a timekeeping system was either not used at all or was used for payroll purposes only (time and attendance and not for labor distribution purposes.

2. Consistent Treatment and Specific Identification of Costs

To be allowable under DOL grants/contracts, costs must be treated consistently on all programs of the organization. OIG audits have disclosed numerous instances in which non-profit organizations have charged DOL grants and/or contracts, either directly or indirectly, for

(1) costs specifically identifiable with programs and activities other than its DOL awards,
(2) costs which were not treated consistently with other costs incurred for the same purpose in like circumstances.

3. Costs of "Unallowable Activities"

Problems disclosed by recent OIG audits which related to so-called "unallowable activities" can usually be categorized in two areas.

(1) First, not all costs associated with "unallowable activities" were properly charged as costs to the final cost objectives for such activities.
(2) Second, because not all such costs were direct charged to "unallowable activities" cost objectives, an appropriate share of indirect costs was not allocated to these "unallowable activities." As a result, DOL and other Federal grants and contracts were allocated a disproportionate share of the organization's indirect costs.

OMB Circular A-122, Attachment A, paragraphs B.3 and B.4 provides that the costs of certain "unallowable activities" must be treated as direct costs (e.g., charged to separate final cost objectives) and allocated an equitable share of the organization's indirect costs.

Examples of unallowable activities include: services to members, maintenance of membership rolls, public relations, lobbying, and fund raising.

Even if an organization's own activities, non-DOL/non-government grants and/or contracts provide for little or no reimbursement of indirect costs, the full share of indirect costs must be allocated to such grants/contracts in accordance with OMB Circular A-122, Attachment A, paragraph A.4.b., which states that any costs allocable to other cost objectives may not be shifted to a Federal award to "overcome funding deficiencies."

4. Credits

OIG audits have disclosed that a number of non-profit organizations failed to reduce the total costs claimed under DOL grants/contracts by the amount of credits applicable to costs charged either directly or indirectly to the DOL grants/contracts. These credits were generated through various transactions, including fees for conferences held for the benefit of DOL programs, building rental operations, insurance credits or adjustments, data processing and office services performed for others, etc.

All receipts, refunds and adjustments applicable to direct costs charged to DOL grants/contracts must be credited to the DOL grants/contracts and those applicable to indirect costs must be credited to the appropriate indirect cost pools.

5. Indirect Cost Allocation Base

To meet the benefits received test, the allocation base must allocate indirect costs to all programs equitably. To ensure that this test is met, organizations must continuously evaluate whether the allocation base elements among all of its programs is proportionate to the benefits to be received from the indirect costs.

Many organizations use total direct personnel costs (salaries/wages, plus fringe benefit costs) as the allocation base to allocate indirect costs to their grants/contracts and other programs. Another cost allocation base commonly used is modified total direct costs.

In most instances, one of the above bases may allocate indirect costs in reasonable proportion to relative benefits received by the various cost objectives. In some cases, they may result in allocating a disproportionate share of the organizations' indirect costs to DOL grants. Use of an inappropriate base which does not allocate indirect costs on the basis of relative benefits received could result in substantial questioned costs.

6. Expressly Unallowable Costs

Indirect costs that are "expressly unallowable" are spelled out in OMB Circular A122, Attachment B, Selected Items of Cost. Common examples of expressly unallowable indirect costs include:

Contributions
Entertainment costs
Fund raising
Lobbying
Professional service costs
Public information service costs
Bad Debts
Legal Costs

7. Inter-Organizational Transfers and Related-Party Transactions

Supplies and services acquired from affiliates, related parties, and organizations under common control, must be based on the actual costs of the organizations providing the supplies and services. No profit should be included.

OIG audits disclosed that some organizations charged directly or indirectly to DOL grants/contracts, the "costs" of supplies and services which included "profits" and/or other mark-ups added by the affiliates, related parties and/or organizations under common control.

8. Lease Incentives and Advance Understandings

To be allowable, costs related to building or office leases must comply with OMB Circular A-122, Attachment A, paragraph A.2. In addition, a net present value (NPV) computation must be made to ensure that the present value of the total allowable lease expense does not exceed the total present value of the lease payments a grantee/contractor makes to its lessor. Also, non-profit organizations should enter into advance understandings with DOL with regard to capital leases and gains to be realized under capital leases in accordance with Attachment A, paragraph A.6.

In times of an oversupply of office space in certain metropolitan areas, developers/ owners may offer various incentives to prospective tenants to get them to sign long term leases, including substantial cash payments. OIG audits disclosed that nonprofit organizations are not accounting for the lease incentives in accordance with generally accepted accounting principles (GAAP), nor are they computing rent expense utilizing the NPV concept.

9. Budget Limitations

Non-profit organizations must adhere to any budget limitations incorporated into their grants/contracts. DOL grants/contracts limit reimbursements to grantees/contractors by incorporating a special clause titled "Budget Line Item Flexibility." This clause provides that no single line item of direct cost shall be increased or decreased in excess of 20 percent of the budget provided the total estimated cost of the grant/contract is not exceeded. The clause further provides that no increase in wages, salaries, and fringe benefits line items (including the mixture, number of hours or wages of personnel paid under the grant/contract) is permitted without the prior review and approval of the DOL Grant/Contracting Officer.

If a contract/grant specifically includes a ceiling rate(s), the indirect cost rate(s) or amount(s) which are indicated in the organization's indirect rate cost agreement, will be subject to the ceilings stipulated in the contract/grant agreement. The ceiling rate or the rate(s) cited in the organization's indirect rate cost agreement whichever is lower, will be used to determine the maximum allowable indirect cost on the contract or grant agreement.

The grantee/contractor must submit a proposal to establish a final rate within six months after their fiscal year end. Billings and charges to Federal awards must be adjusted if the final rate varies from the provisional rate. If the final rate is greater than the provisional rate and there are no funds available to cover the additional indirect costs, the organization may not recover all indirect costs. Conversely, if the final rate is less than the provisional rate, the organization will be required to pay back the difference to the funding agency.

10. Unsupported Costs

To be allowable, all direct costs and indirect costs must be adequately supported by source documentation which clearly shows the purposes and circumstance of the cost incurred. For example, canceled checks, credit card invoices and travel agents' invoices alone are not sufficient to determine whether the costs are chargeable as direct costs or indirect costs, and whether DOL grants/contracts received the benefit of the cost incurred.

In order to determine whether a cost is allowable under or allocable to a DOL grant/contract, the purpose and circumstance of the cost incurrence must be established. OIG audits disclosed that a large number of non-profit organizations did not have adequate documentation to support the allowability/allocability of the costs claimed or proposed.

Also, verbal approval from a Contracting/Grant Officer is insufficient documentation for supporting costs under a contract/grant. Any modifications to a contract/grant must be in writing and signed by both the Contracting/Grant Officer and the contractor/grantee.

SECTION V

Questions and Answers

SECTION V

Typical Questions from Grantees/Contractors and DCD Answers

The following questions are typically asked by grantees/contractors, and are summarized below under the following categories:

A. Indirect rates: 1, 2, 3, 4, 5, 16
B. Individual elements of costs: 6, 7, 8, 9, 10, 11, 12, 13,
C. Audits: 8, 14
D. Technical assistance, adequate proposals, and DCD concerns: 15, 17, 18, 19

1. **What do we do if some grants/contracts do not provide for any indirect costs or provide for indirect cost rates that are lower than those established, provisional or final?**

   All indirect costs, using the approved rate, must be allocated to all grants/contracts regardless of any restrictions or funding limitations. Any allocable indirect costs that exceed any administrative or statutory restrictions on a specific Federal grant/contract may not be shifted to other Federal grants/contracts, unless specifically authorized by legislation. Non-Federal revenue sources must be used to pay for these unrecovered costs.

2. **Will DOL assist grantees/contractors in obtaining proper approval of the indirect cost rate from other Federal agencies and State and local units of Government?**

   The Division of Cost Determination, DOL, will be available to explain to other organizations the methodology used in development of the grantee's/contractor's indirect cost rate. However, the funding of indirect costs is subject to approval of Government authorized representatives and contracting officers of the respective organization. Under most circumstances, other Federal agencies will recognize and pay a grantee/contractor's approved indirect cost expense. The Cognizant Federal Agency cannot, however, require States or units of local Government to recognize an approved indirect cost rate.

3. **Our grant with DOL totals $500,000 and includes a provisional indirect cost rate of 10%. Our actual, final indirect cost rate is 13%. Will DOL provide us with additional grant funds due to our higher indirect cost rate?**

   DOL will not provide your organization with additional grant funds due to a higher final indirect cost rate than the established provisional rate. However, a grant modification may be allowed to transfer budgeted direct costs to the indirect cost category due to the increased indirect costs. This would be subject to the terms and conditions of the grant agreement, e.g. approval of grant officer, indirect cost ceilings, administrative cost limitations.

4. **In the event that a grantee/contractor does not exceed the total grant/contract but exceeds the ceiling placed on the indirect cost by DOL, can the excess indirect cost be recovered?**

   No. The ceiling on the indirect cost was included in the agreement to limit the amount of grant/contract funds used for indirect cost purposes by the grantee/contractor. This condition was known by the grantee/contractor before any grant/contract funds were expended.

5. **Can our indirect cost rate proposal be based only on Federal funds since it only represents 15% of our total revenue?**

   No. Your indirect cost rate proposal must be accompanied by a schedule of costs incurred for all projects, Federal and non-Federal, and the amount of the proposed allocation base must tie-in with the applicable direct cost base for all projects.

6. **Is the cost of accrued annual leave allowable under OMB Circular A-122?**

   OMB Circular A-122, Attachment A, Paragraph 2E, states "To be allowable under an award, costs must be determined in accordance with Generally Accepted Accounting Principles".

   The Financial Accounting Standards Board issued Financial Accounting Standard Number 43 "Accounting for Compensated Absences" to establish uniformity in the accounting for annual leave pay. This standard requires employers to accrue during each accounting period the liability for compensated absences earned by employees during that period provided that all of the following conditions are met:

   1. The employer's obligation relating to employees' rights to receive compensation for future absences is attributable to employee's services already rendered;
   2. The obligation relates to rights that vest or accumulate;
   3. Payment of compensation is probable; and
   4. The amount can be reasonably estimated.

   The accrual of annual leave does not result in increased costs, but allows recognizing the cost in the proper accounting period to improve actual cost determination. In general, compensated absences are to be accrued in the period in which they are earned rather than when they are paid. In order for accrued leave to be an allowable cost, the personnel policies of the organization must comply with the Financial Standard Number 43.

7. **What is the difference between bid and proposal costs and fund raising costs and how does a grantee/contractor treat such costs in its indirect cost proposal?**

   Bid and proposal costs represent the salaries, consultant fees, printing, postage, travel, etc. associated with an organization's preparation of bids, proposals and applications to perform specific tasks for remuneration under potential Federal and non-Federal grants, contracts or other agreements. An organization should treat bid and proposal expenses as allowable indirect costs subject to any limitations imposed by the Cognizant Federal agency.

   Fund raising costs represent the salaries, consultant fees, printing, postage, travel, etc. associated with an organization's requests to private institutions or individuals for donation of funds for non-specific purposes. Fund raising costs are unallowable for Federal reimbursement purposes. However, this activity (cost objective) shall be allocated an appropriate share of indirect costs. Accordingly, fund raising costs are to be included in the distribution base used to compute an organization's indirect cost rate.

8. **Can the audit costs under OMB Circular A-133 be recovered?**

   A-133 allows audit costs to be recovered as either direct or indirect costs in accordance with applicable cost principles. However, there is no special appropriation for audit costs. To recover audit costs, the organization must build them into the specific grant/contract documents (if direct) or into the overhead proposal (if indirect).

9. **If the grantee's policy is to capitalize equipment under the $5,000 threshold specified in A-122, do they need Federal approval prior to directly charging the grant with the cost of equipment?**

   No. The grantee is allowed to directly charge the Federal grant with the cost of equipment under the $5,000 threshold without obtaining prior Federal approval. This direct cost is usually classified as supplies in the reporting of Federal grant expenditures and, if applicable, must be in compliance with any budget limitations.

10. **A grantee has contracted to update its computer network with its affiliates for a total cost of $50,000. Since each component; i.e., monitor, printer, personal computer, software, modem, etc., costs less than the $5,000 per unit threshold specified in A-122, can this "equipment" be charged to the indirect cost pool?**

    No. The components of the computer network make it useable for the purpose for which it was acquired and therefore establishes the "system" as a capital expenditure. Accordingly, this equipment can be appropriately charged to Federal grants either as a direct or indirect cost, on the basis of depreciation or a use allowance as specified in A-122.

11. **A non-profit grantee purchased a building in September, 1994 and refinanced its mortgage in September, 1998. Can the grantee now charge Federal programs with the interest incurred on this mortgage?**

    No. Interest on debt incurred to finance or refinance assets acquired before or required after September 29, 1995, is not allowable.

12. **When is a grantee required to prepare a cash flow statement prior to claiming interest expense on Federal programs?**

    A cash flow statement is to be prepared on an annual basis for debt arrangements over $1 million, unless an initial equity contribution to the asset purchase equals 25% or more. A non-profit organization shall reduce claims for interest expense by an amount equal to imputed interest earnings on excess cash flow, which is to be calculated in accordance with Paragraph 23.a.(1)(f)(ii) of Circular A-122.

13. **What is required of a grantee that sells its facilities and decides to rent office space in another facility at less cost to its Federal programs?**

    Substantial relocation of Federally-sponsored activities from a facility financed by indebtedness, the cost of which was funded in whole or part through Federal reimbursements, to another facility prior to the expiration of a period of 20 years, requires notice to the Federal cognizant agency for possible adjustment to future space costs charged to Federal programs.

14. **What is the relationship of OMB Circular A-122, Cost Principles for Non-Profit Organizations and OMB Circular A-133, Audits of Institutions of Higher Education and Other Non-Profit Institutions in regard to indirect costs?**

    The compliance supplement for OMB Circular A-133 incorporates OMB Circular A-122. It sets forth the major compliance requirements that should be considered in an organization-wide audit of non-profit institutions receiving Federal assistance. The compliance supplement contains general requirements that shall be considered in all financial and compliance audits. Failure to comply with the general requirements could have a material impact on an organization's financial statements.

One of these general requirements is presented in Appendix VII to OMB Circular A-133, "Allowable Costs/Cost Principles." According to this requirement, the auditor is responsible for auditing direct and indirect costs to determine whether costs claimed are in compliance with OMB Circular A-122.

15. **Can transactions with an affiliate affect allowable costs?**

    Yes. A problem may arise in transactions between parent organizations and their affiliates when the parent organization has an equity interest in the affiliate. When an equity interest exists, any profits made by the affiliate improve the equity interest of the parent. If an affiliate sells a good or service to the parent and the selling price includes a profit to the affiliate, the parent's equity interest in the affiliate has been increased. If the parent then includes the purchase price as a direct or indirect charge to a Federal award, it has violated the OMB Circular A-122 cost principle that charges will be at cost and not include a profit factor.

    For example, suppose your organization (the parent) obtains accounting services from an affiliate and the parent organization has an equity interest in the affiliate. The fee that the parent pays to the affiliate must be based on the cost incurred by the affiliate and the fee may not include a profit to the affiliate.

    If the fee does include a profit factor to the affiliate, the allowable part of the fee is limited to that portion which represents the cost to the affiliate exclusive of any profit factor.

    This principle works in reverse as well. When an organization provides a good or service to an affiliate, the full cost of providing that good or service must be recovered from the affiliate and an appropriate credit must be applied to the indirect cost pool.

16. **What is the period of time that an indirect cost rate agreement covers?**

    A provisional indirect cost rate is negotiated to cover a one year period. However, because of the time lapse between the submission and approval of a rate, provisional rates are usually established by DOL for a two year period. A final indirect cost rate agreement is negotiated to cover one fiscal year period after which a new final indirect cost rate must be negotiated for the subsequent fiscal year.

17. **When a grantee/contractor is required by DOL to submit a closeout package prior to negotiating a final indirect cost rate, what is the procedure?**

    The grantee/contractor should prepare the closeout package using the approved provisional indirect cost rate and include a statement indicating that a provisional indirect cost rate was used pending negotiations of a final indirect cost rate. Upon receipt of a final indirect cost rate, an amended final closeout will be submitted.

18. **What can the submitting organizations do to help the Federal Cognizant Agency facilitate their review of an indirect cost rate proposal?**

    If there are any questions concerning any aspect of the proposal, call the Federal cognizant agency rate negotiator to resolve the issue prior to formal submission. Also, if during a prior negotiation you agreed to take corrective action(s) on any issues, you must disclose the status of your action(s). Finally, you must inform the cognizant agency about all significant organizational or accounting changes and their impact. If these actions are taken, it could save time in getting the proposal negotiated.

19. **What are some of the concerns the Federal agencies have about grantee/contractor submissions of indirect cost rate proposals?**

    The primary concern of Federal agencies is the receipt of incomplete documentation. Indirect cost proposals do not provide sufficient detail to explain the functions and the benefits associated with the costs being allocated. An additional concern to Federal agencies is an indirect cost proposal that is not reconcilable to a budget or a financial statement and contains no explanation of the difference.

APPENDIX I

SAMPLE: Negotiated Indirect Cost Rate Agreement Commercial Organization

NEGOTIATED INDIRECT COST RATE AGREEMENT
COMMERCIAL ORGANIZATION

ORGANIZATION:
ABC Organization
1201 12th Street, N.W.,
Washington, D. C. 20210

DATE: August 23, 2004
FILE REFERENCE: This replaces the agreement dated April 15, 2003

The indirect cost rate(s) contained herein are for use on contracts with the Department of Labor to which Federal Acquisition Regulations, Part 31.2 applies, subject to the limitations contained in Section II, A, below. The rate(s) were negotiated by the (*name of the organization*) and the U.S. Department of Labor in accordance with the authority contained in **Federal Acquisition Regulations, Part 42.703-1**.

SECTION I: RATES

	EFFECTIVE PERIOD				
TYPE	**FROM**	**TO**	**RATE***	**LOCATION**	**APPLICABLE TO**
Overhead - Offsite Office					
Final	7-1-02	6-30-2003	16.05%(a)	ALL	ALL
Provisional	7-1-03	6-30-2005	15.75%(a)	ALL	ALL
G&A					
Final	7-1-02	6-30-2003	17.25%(b)	ALL	ALL
Provisional	7-1-03	6-30-2005	17.50%(b)	ALL	ALL

(SEE SPECIAL REMARKS)

***BASE**:
(a) Total direct salaries and wages including applicable fringe benefits
(b) Total costs less G&A expenses

TREATMENT OF FRINGE BENEFITS:
Fringe benefits are specifically identified to each employee and are charged individually as direct or indirect costs (as applicable).

TREATMENT OF PAID ABSENCES:
Vacation, holiday, sick leave and other paid absences are included in salaries and wages and are claimed on grants, contracts and other agreements as part of the normal cost for salaries and wages. Separate claims for these absences are not made.

SECTION II: GENERAL

A. **LIMITATIONS**: Use of the rate(s) contained in the Agreement is subject to all statutory or administrative limitations and is applicable to a given contract only to the extent that funds are available. Acceptance of the rate(s) agreed to herein is predicated upon the following conditions:

(1) that no costs other than those incurred by the contractor or allocated to the contractor via an approved central service cost allocation plan were included in its indirect cost pool as finally accepted and that such incurred costs are legal obligations of the contractor and are allowable under the governing cost principles,
(2) that the same costs that have been treated as indirect costs have not been claimed as direct costs,
(3) that similar types of costs have been accorded consistent treatment, and
(4) that the information provided by the contractor which was used as a basis for acceptance of the rate(s) agreed to herein is not subsequently found to be materially inaccurate.

The elements of indirect cost and the type of distribution base(s) used in computing provisional rates are subject to revision when final rates are negotiated. Also, the rates cited in this Agreement are subject to audit.

B. **CHANGES**: The contractor is required to provide written notification to the indirect Cost Negotiator prior to implementing any changes which could affect the applicability of the approved rates. Changes in the indirect cost recovery plan, which may result from changes such as the method of accounting or organizational structure, require the prior written approval of the Division of Cost Determination (DCD). Failure to obtain such prior written approval may result in cost disallowance.

C. **NOTIFICATION TO FEDERAL AGENCIES**: A copy of this document is to be provided by this organization to other Federal funding sources as a means of notifying them of the Agreement contained herein.

D. **SPECIAL REMARKS**:

1. Indirect costs charged to Federal contracts by means other than the rate(s) cited in this Agreement should be adjusted to the applicable rate cited herein and be applied to the appropriate base to identify the proper amount of indirect costs allocable to the program.

2. Contracts providing for ceilings as to the indirect cost rate(s) or amount(s) which are

indicated in Section I above, will be subject to the ceilings stipulated in the contract. The ceiling rate or the rate(s) cited in this Agreement, whichever is lower, will be used to determine the maximum allowable indirect cost on the contract.

3. Administrative costs consists of all **Direct** and **Indirect** costs associated with the management of an organization's programs. Organizations should refer to their contracts/grants terms and specific program legislation for the applicable definition of Administrative Costs and any related limitations.

4. ABC Organization indirect pools are comprised of the following elements:

Off-site Overhead Pool:

Salaries, Applicable fringes, Insurance, Supplies, Printing & Duplicating, Telephone-voice, Telephone-data, Temporary Staff, Training & Education, Miscellaneous.

General & Administrative Pool:

Salaries, Applicable fringes, B&P Labor Applicable Fringes, Applied OH on B&P, Other B&P Costs, Accounting, Advertising, Board Expenses, Computer Processing Charges, Computer Supplies, Depreciation (F&E), Depreciation (computers), Dues & Subscriptions, Equipment & Furniture Rental, Insurance, Legal Expenses, Maintenance/repairs, Meetings, Miscellaneous/other, Office Rent, Office Supplies, Postage & Shipping, Printing & Duplicating, Recruiting, Taxes & Licenses, Telephone-voice, Telephone-data, and Temporary Staff.

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ACCEPTANCE

BY THE ORGANIZATION:	BY THE COGNIZANT AGENCY ON BEHALF OF THE FEDERAL GOVERNMENT:
ABC Organization	**U.S. DEPARTMENT OF LABOR**
(Grantee/Contractor)	(Government Agency)
(Signature)	(Signature)
	Victor M. Lopez
(Name)	(Name)
	Chief, Division of Cost Determination
(Title)	(Title)
	August 23, 2004
(Date)	(Date)
	Negotiated By: Victor Lopez Telephone No.: 202-693-4100

APPENDIX II

SAMPLE: Negotiated Indirect Cost Rate Agreement Non-Profit Organization

NEGOTIATED INDIRECT COST RATE AGREEMENT
NONPROFIT ORGANIZATION

ORGANIZATION:
ABC Organization
1201 12th Street, N.W.,
Washington, D. C. 20210

DATE: August 23, 2004
FILE REF: This replaces the agreement dated April 15, 2003

The rates approved in this Agreement are for use on grants, contracts, and other agreements with the Federal Government to OMB Circular No. A-122 (2 CFR Part 230) applies, subject to the conditions in Section II, A, below. The rates were negotiated by ABC Organization and the U.S. Department of Labor in accordance with the authority contained in Attachment A, Section E.2 (a), of the Circular.

SECTION I: RATES

	EFFECTIVE PERIOD				
TYPE	**FROM**	**TO**	**RATE**	**LOCATION**	**APPLICABLE TO**
INDIRECT COST:					
Final	7/1/00	6/30/01	7.74%	All	All Programs
Final	7/1/01	6/30/02	9.24%	All	All Programs
Provisional	7/1/02	6/30/03	8.75%	All	All Programs
Provisional	7/1/03	6/30/05	9.00%	All	All Programs

(SEE SPECIAL REMARKS)

BASE:

Total direct costs excluding capital expenditures (buildings, individual items of equipment; alterations and renovations), and that portion of each sub-award in excess of $25,000.

TREATMENT OF FRINGE BENEFITS:
Fringe benefits are specifically identified to each employee and are charged individually as direct or indirect costs (as applicable).

TREATMENT OF PAID ABSENCES:
Sick leave, holiday, and other paid absences are included in salaries and wages and are claimed on grants, contracts and other agreements as part of the normal cost for salaries and wages. Separate claims for these absences are not made. Vacation pay is accrued and charged the same as other fringe benefits.

SECTION II: GENERAL

A. **LIMITATIONS:** Use of the rate(s) contained in the Agreement is subject to all statutory or administrative limitations and is applicable to a given grant or contract only to the extent that funds are available. Acceptance of the rate(s) agreed to herein is predicated upon the following conditions:

(1) that no costs other than those incurred by the grantee/ contractor or allocated to the grantee/contractor via an approved central service cost allocation plan were included in its indirect cost pool as finally accepted and that such incurred costs are legal obligations of the grantee/ contractor and allowable under the governing cost principles,
(2) that the same costs that have been treated as indirect costs have not been claimed as direct costs,
(3) that similar types of costs have been accorded consistent treatment, and
(4) that the information provided by the grantee/contractor which was used as a basis for acceptance of the rate(s) agreed to herein is not subsequently found to be materially inaccurate.

The elements of indirect cost and the type of distribution base(s) used in computing provisional rates are subject to revision when final rates are negotiated. Also, the rates cited in this Agreement are subject to audit.

B. **CHANGES:** The grantee/contractor is required to provide written notification to the indirect cost negotiator prior to implementing any changes which could affect the applicability of the approved rates. Changes in the indirect cost recovery plan, which may result from changes such as the method of accounting or organizational structure, require the prior written approval of the Division of Cost Determination (DCD). Failure to obtain such prior written approval may result in cost disallowance.

C. **NOTIFICATION TO FEDERAL AGENCIES:** A copy of this document is to be provided by this organization to other Federal funding sources as a means of notifying them of the Agreement contained herein.

D. **PROVISIONAL-FINAL RATES**: The grantee/contractor must submit a proposal to establish a final rate within six months after their fiscal year end. Billings and charges to federal awards must be adjusted if the final rate varies from the provisional rate. If the final rate is greater than the provisional rate and there are no funds available to cover the additional indirect costs, the organization may not cover all indirect costs. Conversely, if the final rate is less than the provisional rate, the organization will be required to pay back the difference to the funding agency.

Indirect costs allocable to a particular award or other cost objective may not be shifted to other Federal awards to overcome funding deficiencies to avoid restrictions imposed by law or by the terms of the award.

E. **SPECIAL REMARKS:**

1. Indirect costs charged to Federal grants/contracts by means other than the rate(s) cited in this Agreement should be adjusted to the applicable rate(s) cited herein and be applied to the appropriate base to identify the proper amount of indirect costs allocable to the program.

2. Contracts/grants providing for ceilings as to the indirect cost rate(s) or amount(s) which are indicated in Section I above, will be subject to the ceilings stipulated in the contract or grant agreements. The ceiling rate or the rate(s) cited in this Agreement, whichever is lower, will be used to determine the maximum allowable indirect cost on the contract or grant agreement.

3. The indirect cost pool consists of its allocable share of the following administrative expenses (all costs identifiable to a specific contract or grant must be charged directly):

   1) Salaries:
      a. 100% indirect- President, Executive Director, Administrative Assistant, Personnel Staff, Office Services, Accounting, Network Support, Receptionist.
      b. The remaining salaries are charged either to direct or indirect costs by individual time sheets.

   2) Employee fringe benefits for indirect employees- FICA, Unemployment Insurance, Workers Compensation, health insurance, pension, long term disability, and life insurance. Vacation pay is accrued and charged like other fringe benefits.
   3) Professional fees & contract services
   4) Supplies & materials
   5) Telephone
   6) Postage and shipping
   7) Occupancy
   8) Rental & maintenance of equipment
   9) Printing & publication, visual aids
   10) Travel
   11) Training and educational assistance costs
   12) Depreciation and amortization costs

ACCEPTANCE

BY THE ORGANIZATION:	BY THE COGNIZANT AGENCY ON BEHALF OF THE FEDERAL GOVERNMENT:
ABC Organization	**U.S. DEPARTMENT OF LABOR**
(Grantee/Contractor)	(Government Agency)
(Signature)	(Signature)
	Victor M. Lopez
(Name)	(Name)
	Chief Division of Cost Determination
(Title)	(Title)
	August 23, 2004
(Date)	(Date)
	Negotiated By: Victor M. Lopez Telephone No.: 202-693-4100

APPENDIX III

List of DCD Addresses and Telephone Numbers

APPENDIX III

Division of Cost Determination
List of Addresses and Telephone Numbers
As of September 2007

National Office address and contact information: 200 Constitution Avenue, N.W., S-1510
Washington, D.C. 20210

(P) 202-693-4100
(F) 202-693-4099

Chief: Victor M. Lopez
E-mail address: lopez.victor@dol.gov
(P) 202-693-4106

	Cost Negotiators	E-mail Address	Location/Region	Address	Phone	Fax
1	Damon Tomchick	tomchick.damon@dol.gov	D.C.	Same as National Office	202-693-4105	202-693-4099
2	Casey Carros	carros.casimer@dol.gov	D.C.	Same as National Office	202-693-4107	202-693-4099
3	Margie Merced	merced.margie@dol.gov	D.C.	Same as National Office	202-693-4104	202-693-4099
4	Stephen Cosminski	cosminski.stephen@dol.gov	Philadelphia	125 Oak Drive Sellersville, PA 18960	215-257-8712	215-257-8994
5	Phil Zahnd	zahnd.phil@dol.gov	Atlanta	111 Zahnd Way Florence, Al 35634	256-272-0075	256-272-0085
6	Ronald Goolsby	goolsby.ronald@dol.gov	Chicago	230 South Dearborn St. Room 1016 Chicago, IL 60604-1505	312-886-5247	312-353-0127
7	Carol McKone	mckone.carol@dol.gov	Dallas	P.O. Box 821067 Ft. Worth, TX 76182	817-281-1503	817-281-1530
8	Arthur Campbell	campbell.arthur@dol.gov	Seattle	P.O. Box 3433 Renton, WA 98256	425-271-3848	425-271-5295

* Cost Negotiators are generally responsible for organizations located in their regions, as follows:

Washington D.C. staff – *Washington D.C., and the metropolitan area.*

Philadelphia region: *Connecticut, Maine, Massachusetts, New Hampshire, Vermont, Rhode Island, New York, New Jersey, Pennsylvania, Puerto Rico, Delaware, Maryland, Virginia, West Virginia, Virgin Islands.*

Atlanta region: *Alabama, Florida, Georgia, Kentucky, Mississippi, North Carolina, South Carolina, and Tennessee.*

Chicago region: *Illinois, Indiana, Iowa, Kansas, Michigan, Minnesota, Missouri, North Dakota, South Dakota, Nebraska, Ohio, and Wisconsin*.

Dallas region: *Arkansas, Louisiana, Kentucky, Oklahoma, Texas, Colorado, Nevada, Arizona, Wyoming, and New Mexico*.

Seattle region: *Alaska, Idaho, Oregon, Washington, Montana, Utah, California, & Hawaii*.

One-Stop Comprehensive Financial Management Technical Assistance Guide

July 2002

One–Stop
Comprehensive Financial Management Technical Assistance Guide

U.S. DEPARTMENT OF LABOR
Employment and Training Administration

U.S. Department of Labor
Employment and Training Administration
Office of Grants and Contract Management
Division of Financial and Grants
Management Policy and Review
Washington, D.C.

July 2002

One-Stop Comprehensive Financial Management Technical Assistance Guide

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One-Stop Comprehensive Financial Management Technical Assistance Guide

Preface

INTRODUCTION

This Comprehensive Financial Management Technical Assistance Guide (TAG) is designed to provide operational and financial management guidance for an integrated workforce investment system operating in a One-Stop environment as required by the Workforce Investment Act (WIA or "the Act").

The WIA of 1998 provides the framework for a reformed national workforce investment system designed to meet the needs of the nation's employers, job seekers, and those who want to further their careers. Title I of the legislation is based on the following elements:

- Training and employment programs must be designed and managed at the local level where the needs of businesses and individuals (customers) are best understood.
- Individual customers must be able to conveniently access the employment, education, training, and information services they need at a single location in their neighborhoods.
- Individuals should have choices in deciding which training program best fits their needs and which organizations will provide that service. They should have control over their own career development.
- Individuals have a right to information about the success of training providers in preparing people for jobs. Training providers will provide information on their success rates.
- Businesses will provide information and leadership and play an active role in ensuring that the system prepares people for current and future jobs.

A key reform is that the Act establishes a comprehensive network for the delivery of employment and training services through a system of One-Stop career centers within each Local Workforce Investment Area (LWIA). Each local area establishes a One-Stop delivery system to provide both core services and access to other employment and training services funded under the Act and other Federal programs. There must be at least one comprehensive center within each local area, which may be supplemented by networks of affiliated sites. Customers benefit from a One-Stop delivery system with career centers in their neighborhoods where they can access core employment services and be referred directly to job training, education, or other services.

As specified in Section 121(b)(1)(B)(i-xii) of the Act and 20 Code of Federal Regulations (CFR) 662.200 of the implementing regulations, the Federally funded programs that must provide core services and participate as "partners" in the creation and maintenance of the One-Stop system are:

(1) Programs authorized under Title I of WIA, serving
  (i) Adults
  (ii) Dislocated workers
  (iii) Youth
  (iv) Job Corps
  (v) Native Americans
  (vi) Migrant and seasonal farm workers
  (vii) Veterans (WIA Section 121(b)(1)(B)(i))

(2) Programs authorized under the Wagner-Peyser Act (29 United States Code (U.S.C.) 49 et seq.) (WIA Section 121(b)(1)(B)(ii))

(3) Adult education and literacy activities authorized under Title II of WIA (The Adult Education and Family Literacy Act) (WIA Section 121(b)(1)(B)(iii))

(4) Programs authorized under Parts A and B of Title I of the Rehabilitation Act (29 U.S.C. 720 et seq.) (WIA Section 121(b)(1)(B)(iv))

(5) Welfare-to-Work (WtW) programs authorized under Section 403(a)(5) of the Social Security Act (42 U.S.C. 603(a)(5) et seq.) (WIA Section 121(b)(1)(B)(v))

(6) Senior community service employment activities authorized under Title V of the Older Americans Act of 1965 (42 U.S.C. 3056 et seq.) (WIA Section 121(b)(1)(B)(vi))

(7) Post-secondary vocational education activities under the Carl D. Perkins Vocational and Applied Technology Education Act (20 U.S.C. 2301 et seq.) (WIA Section 121(b)(1)(B)(vii))

(8) Trade Adjustment Assistance and North American Free Trade Agreement (NAFTA) Transitional Adjustment Assistance activities authorized under Chapter 2 of Title II of the Trade Act of 1974 (19 U.S.C. 2271 et seq.) (WIA Section 121(b)(1)(B)(viii))

(9) Activities authorized under Chapter 41 of Title 38, U.S.C. (local veterans' employment representatives and disabled veterans' outreach programs) (WIA Section 121(b)(1)(B)(ix))

(10) Employment and training activities carried out under the Community Services Block Grant (42 U.S.C. 9901 et seq.) (WIA Section 121(b)(1)(B)(x))

(11) Employment and training activities carried out by the Department of Housing and Urban Development (WIA Section 121(b)(1)(B)(xi))

(12) Programs authorized under State unemployment compensation laws (in accordance with applicable Federal law) (WIA Section 121(b)(1)(B)(xii)).

Within each local One-Stop center, the programs may be administered by State or local governmental agencies, nonprofit organizations, post-secondary educational institutions such as community colleges, and for-profit organizations. Each One-Stop environment is unique, dependent upon the needs of the local community. The types of partners may also vary by One-Stop center.

This TAG has been developed to provide the One-Stop system with appropriate guidance on the administrative and financial management requirements applicable to the required Employment and Training Administration (ETA)-funded partner programs. Additionally, the TAG provides operational guidance for all partner programs on implementing the uniform policy on Cost Allocation and Resource Sharing contained in the *Federal Register* notice titled "Resource Sharing for Workforce Investment Act One-Stop Centers: Methodologies for Paying or Funding Each Partner Program's Fair Share of Allocable One-Stop Costs." (66 Fed. Reg. 29638, May 31, 2001)

BACKGROUND

Why the TAG Was Developed

The Act, the regulations, and the Office of Management and Budget (OMB) circulars contain specific provisions that guide the planning, design, operation, documentation, and assessment of a sound financial management system. This TAG amplifies the Act and the accompanying regulations, clarifies expectations, addresses issues commonly occurring in the field, identifies operational problems and possible solutions, models promising practices, and provides suggestions and techniques to ensure compliance. It is intended to help those responsible for financial management in effectively carrying out their responsibilities.

How the TAG Was Developed

Financial management under government grants is a highly technical and specialized field. In January of 1995, ETA published and disseminated the *JTPA Financial Management Technical Assistance Guide* to support the implementation of Job Training Partnership Act (JTPA) programs. JTPA was the predecessor program to the WIA, and this TAG draws heavily on the approach that was used in developing the JTPA TAG. In June of 1999, for use by WtW grantees, the ETA published the *Welfare-to-Work Financial Management Technical Assistance Guide,* based on the required application of the OMB circulars. With the implementation of the WIA, ETA believes that a Comprehensive Financial Management TAG would be beneficial to a wider audience and would provide assistance in the development of the required financial systems of the One-Stop career centers. Part I of this TAG is designed to provide guidance on cost allocation and resource sharing issues that have arisen with the implementation of WIA. This part has been reviewed by the Federal partner agencies specified in WIA and by the OMB. With this part, ETA has sought to incorporate lessons from the implementation of WIA thus far. The guidance is drawn from the *Federal Register* notice dated May 31, 2001, containing the uniform Federal policy on cost allocation and resource sharing for One-Stop career centers. Part II of the TAG is designed to provide guidance on the financial and grant management requirements for the ETA programs that are required partners in the One-Stop system. This Part is modeled on both the JTPA and WtW TAGs and is based on the OMB circulars applicable to all ETA grant programs.

INTENDED AUDIENCE FOR THE GUIDE

The Comprehensive Financial Management TAG targets State, local, and other grant staff responsible for ensuring that the One-Stop system programs not only provide the necessary program services but also are properly managed and fiscally sound. While financial management personnel may be the primary and most frequent users of this TAG, program administrators and staff are also part of the intended audience. Any individual within the WIA or required partner system who is responsible for some aspect of financial management, fiscal accountability, program accounting, or program management, or who is new to the program, is likely to need and use this resource.

HOW THE TAG IS ORGANIZED

This Comprehensive Financial Management TAG is organized as follows:

Part I provides additional guidance for implementing the cost allocation and resource sharing policy contained in the *Federal Register* notice dated May 31, 2001. Part I consists of six chapters that describe the methodologies for cost allocation and resource sharing within the One-Stop environment. The specific chapters and their contents are described in the Introduction to Part I.

Part II provides the financial and administrative requirements applicable to ETA-funded employment and training programs functioning as required partners in the One-Stop system. Part II consists of 15 chapters that describe financial requirements such as fund distribution, financial systems, allowable costs, cost allocation, program income, and grant management requirements such as reporting, property management, procurement, and audit.

Appendices. Appendices A through E provide additional resources for the user, including a reference for administrative requirements, a listing of applicable regulations and OMB circulars, Internet resources, a comprehensive glossary with acronyms, and subrecipient/vendor distinctions.

All three parts of the TAG have separate introductions that identify the chapters and/or highlight the information to be specifically addressed within the relevant part.

HOW TO USE THE TAG

Readers are advised to use the TAG as a reference and technical assistance tool to ensure sound financial management and consistency in program and fiscal accountability. Users may want to familiarize themselves with each part of the TAG as applicable to their programs in order to understand what it contains and where information may be found.

Once again, users are cautioned that this TAG is for guidance in implementing the requirements of the WIA and the ETA-funded programs that are required partners in the One-Stop system. It does not replace or supplant the Act or the regulations.

CAUTIONS

Special care has been taken to differentiate for the reader what the WIA and other ETA-funded grant programs require, what the regulations require, and what is simply good advice based on experience and sound judgment. Wherever the TAG is quoting the Act or the program regulations, citations are provided immediately following the reference.

The TAG contains a comprehensive glossary in Appendix D. Within the regulations, legislation, and circulars, there may be more than one definition of a single term. To the extent possible, this TAG uses the more extensive definition or the definition found in the legislation. In addition, there are terms that may have similar definitions but may be named differently, i.e., grant and award. If, in any instance, the definitions or their use in this TAG appear to conflict with the Act or Federal regulations, the conflict must be resolved in favor of the Act and the regulations, which take ultimate precedence.

It is impossible to anticipate every eventuality that might occur in administering the various programs. The examples are provided to support explanations in the TAG but are sufficiently generic to assist decision-makers in a variety of circumstances. Still, at best, these examples are merely illustrations of a principle or a method of approaching a particular legislative or regulatory provision. The TAG has been written to assist the One-Stop system and the partner organizations in complying with the cost-sharing provisions of the Act and the regulations, and to provide operational guidance to ETA-funded programs on the financial and grant management aspects of their grants.

ACKNOWLEDGMENTS

This TAG was produced by DTI Associates, Inc., under the terms of Contract Number F-6829-8-00-80-30 with the Employment and Training Administration. The principal author of the TAG is Judi Fisher.

Ed Donahue, Chief of the Division of Financial and Grants Management Policy and Review within the ETA's Office of Grants and Contract Management, was instrumental in reviewing drafts and provided innumerable helpful suggestions. Amy Knight, also of the Division of Financial and Grants Management Policy and Review, reviewed drafts and provided critical clarifying editorial comments.

Staff from the Department of Labor's Office of Cost Determination made important comments on the chapters, especially pertaining to Part I of the TAG. Numerous staff members from the ETA's national and regional offices reviewed draft chapters, and their collective comments helped clarify the concepts and methodologies contained in the document. Finally, financial staff from the Departments of Education and Health and Human Services reviewed Part I of the TAG, and their input is appreciated.

PART I

ONE-STOP FINANCIAL MANAGEMENT

INTRODUCTION

Part I of the One-Stop Comprehensive Financial Management Technical Assistance Guide (TAG) provides guidance for the required partner programs on implementing the *Federal Register* notice on cost allocation and resource sharing titled "Resource Sharing for Workforce Investment Act One-Stop Centers: Methodologies for Paying or Funding Each Partner Program's Fair Share of Allocable One-Stop Costs" published at 66 Fed. Reg. 29638 (May 31, 2001). The Workforce Investment Act (WIA or "the Act") requires each local workforce area to establish a One-Stop system for the provision of certain core services as specified in the legislation. The Act further requires that entities responsible for the operation of additional Federal funding source programs such as educational, human resource, and other workforce investment programs participate as partners in the operation of the One-Stop career centers, thereby creating a seamless delivery system. Within the One-Stop environment, the required partners are the recipients and subrecipients providing services through the following programs:

(1) Programs authorized under Title I of WIA, serving
  (i) Adults
  (ii) Dislocated workers
  (iii) Youth
  (iv) Job Corps
  (v) Native Americans
  (vi) Migrant and seasonal farm workers
  (vii) Veterans
(2) Programs authorized under the Wagner-Peyser Act
(3) Adult education and literacy activities authorized under Title II of WIA (The Adult Education and Family Literacy Act)
(4) Programs authorized under Parts A and B of Title I of the Rehabilitation Act
(5) Welfare-to-Work (WtW) programs authorized under Section 403(a)(5) of the Social Security Act
(6) Senior community service employment activities authorized under Title V of the Older Americans Act of 1965
(7) Post-secondary vocational education activities under the Carl D. Perkins Vocational and Applied Technology Education Act
(8) Trade Adjustment Assistance and North American Free Trade Agreement (NAFTA) Transitional Adjustment Assistance activities authorized under Chapter 2 of Title II of the Trade Act of 1974

(9) Activities authorized under Chapter 41 of Title 38, United States Code (local veterans' employment representatives and disabled veterans' outreach programs)
(10) Employment and training activities carried out under the Community Services Block Grant
(11) Employment and training activities carried out by the Department of Housing and Urban Development
(12) Programs authorized under State unemployment compensation laws.

The WIA regulations further stipulate that the required partner programs are to provide funds for the creation and maintenance of the One-Stop system. [20 Code of Federal Regulations (CFR) 662.230(b)] The funding arrangements are then incorporated into the Memorandum of Understanding (MOU). The Act is clear that the One-Stop system is to serve as the primary vehicle for the provision of employment and training services, regardless of funding sources, within a local area. As a result of the WIA mandate that several employment and training programs funded under a number of different laws by various Federal agencies collaborate and work together as One-Stop partners, the Office of Management and Budget (OMB) directed that the Department of Labor (DOL) take the lead in developing a uniform policy on acceptable methodologies for cost allocation and resource sharing in the WIA One-Stop environment. This uniform policy is contained in the *Federal Register* notice dated May 31, 2001, on cost allocation and resource sharing. The policy was developed in cooperation with the Departments of Education and Health and Human Services, as well as the DOL's Office of Cost Determination and Office of the Inspector General. In developing this policy, the Federal agencies addressed an underlying problem of the One-Stop system: how to assure the appropriate accumulation of cost information and payment for these shared costs in a single location. The concepts embodied in the policy are distinct. Cost allocation is addressed in the OMB circulars and is based on the premise that Federal programs will bear their equitable proportion of shared costs based on the benefit received by that program. Resource sharing is the methodology through which One-Stop partners will pay for, or fund, their equitable or fair share of the costs. The *Federal Register* notice contains an explanation of both concepts and acceptable methodologies for both cost allocation and resource sharing within the One-Stop environment.

There are references to the various One-Stop models—Full Integration, Co-Location with Coordinated Delivery of Services, and Electronic Data Sharing—throughout the TAG. The guidance in the TAG was designed and developed to provide program administrators and practitioners with the tools to assist them to more fully develop the One-Stop operations within their jurisdictions and move toward development of the Full Integration model. Notwithstanding ETA's desire to fully develop One-Stop operations and provide cohesive and comprehensive services within the One-Stop setting, the TAG also provides guidance, ideas, and tools that may be used by all One-Stop partners regardless of the program design, including the Co-Location model or any combination of models.

The guidance in this section of the TAG is presented as a series of sequential steps to be undertaken by the One-Stop partners to fully develop the shared funding. Each of the first five chapters presents a separate step, culminating with the development of the Resource Sharing Agreement (RSA). The RSA is the funding document for the MOU and contains the financial information on shared One-Stop costs, including the cost allocation methodologies and payment

mechanisms, which have been developed by the partners within the One-Stop system or center. Each of the chapters is described more fully later in this introduction. Attachment I-Intro-1 is a schematic presentation of the five steps.

This section of the Comprehensive Financial Management TAG addresses the policy contained in the aforementioned *Federal Register* notice. Part I of the TAG has been developed with the input and comments from those Federal agencies involved in the development of the *Federal Register* notice in order to provide operational guidance and examples that implement this uniform policy for cost allocation and resource sharing within the One-Stop delivery system.

INTENDED AUDIENCE

This section of the TAG is designed for use by all required partners in the One-Stop to aid them in identifying the shared costs of a One-Stop center and in developing appropriate methodologies for cost allocation and resource sharing. While the TAG targets financial management staff, this section of the TAG may also be appropriate for program managers, One-Stop operational staff, Local Workforce Investment Boards (LWIBs), and other Federal agency staff with the responsibility for developing the One-Stop system within their local jurisdictions.

HOW PART I IS ORGANIZED

This Introduction describes the One-Stop required partners, partner responsibilities for costs, and the *Federal Register* notice that is the basis of this part. This chapter also provides the user an overview of Part I and cautions for use of the guide.

Chapters I-1 through I-6 describe the methodologies for cost allocation and resource sharing within the One-Stop environment. An overview of what is contained in each chapter is given in the following paragraphs.

Chapter I-1, *Identification of Shared Costs*, describes the types of costs that might be considered as shared costs within the individual One-Stop centers and discusses the impact of One-Stop participant flow and service design on shared costs. It provides an overview of the different types of One-Stops (i.e., fully integrated, co-located) and their impact on shared costs, including electronic data sharing and technology costs. There are also discussions of what to do when partners cannot agree on costs, and of allowable and unallowable costs as they relate to partner organizations.

Chapter I-2, *Shared Costs Budgets*, describes the process used to develop a standard budget format for shared costs, including the exclusion of direct program costs of each partner program and the manner in which the shared budget relates to the partner agencies' budgets. The chapter includes sample templates for budget development.

Chapter I-3, *Proportionate Share and Cost Allocation*, discusses determination of a proportionate share for each/all partner(s) and methodologies for determining relative benefit received by the partner programs. The chapter also describes cost allocation requirements as found

in the OMB circulars, focusing on the shared costs of the One-Stop. It contains a discussion of the different methodologies for cost allocation and determining the proportionate share attributable to each partner, the cost allocation agreement, data sharing, and reconciliation of actual costs, including adjustments to the resources to be contributed by each partner as may be required. A discussion is also included of costs benefiting a nonparticipating partner organization and shared costs that are unallowable to one/multiple partner's program when there is a direct benefit to the partner.

Chapter I-4, *Resource Sharing*, describes the various methodologies that might be used to pay for the shared costs. The chapter contains a discussion of different types of resources (i.e., goods, services, cash, or in-kind contributions) that each partner might use to fund its proportionate share of the costs, methods that might be used when partner organizations are unable to provide full funding of their proportionate share, and the use of cash contributions to fully fund proportionate shared costs, as well as a discussion of required adjustments based on actual costs.

Chapter I-5, *Resource Sharing Agreements*, discusses the elements of the RSA, dispute resolution, data sharing and privacy considerations, modification processes, and the audit responsibilities related to RSAs. It also discusses the relationship of the RSA to the MOU, including modification, and the cost items required by legislation and regulations.

Chapter I-6, *Case Studies*, contains four case studies designed to illustrate in practical terms the concepts contained in Part I. The case studies reflect a number of different types of One-Stop models and resolution of problems encountered in the processes.

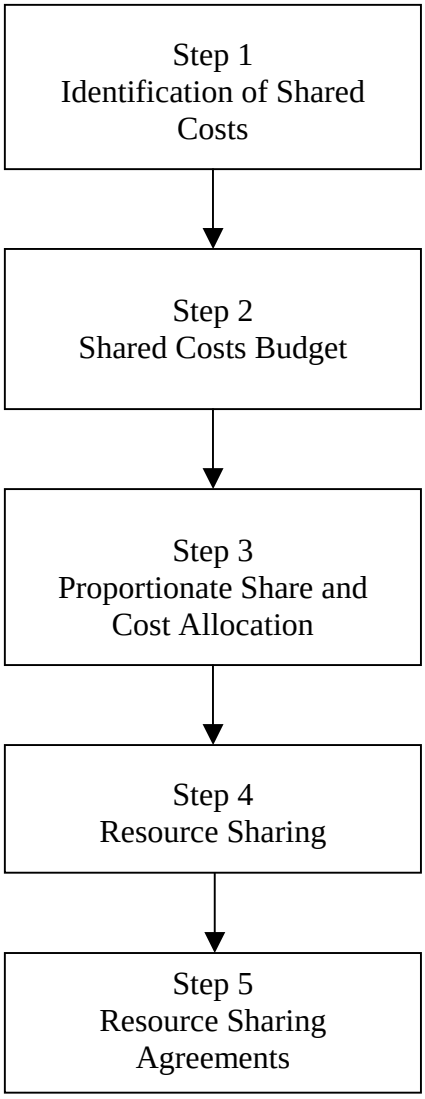
CAUTIONS

The information provided in Part I of the TAG is intended to aid One-Stop partner agencies in developing funding mechanisms for the One-Stop shared costs. It is not intended to supplant or replace regulations and requirements contained in applicable OMB circulars but to provide practical examples and clarification of the uniform policy contained in the *Federal Register* notice on cost allocation and resource sharing. Wherever the TAG is quoting the Act or the regulations, citations are provided immediately following the reference.

Partner agencies utilizing the information in this TAG to develop the MOU and RSAs are urged to provide their independent auditors with adequate information about the processes they have followed to develop an RSA. Costs incurred in support of the One-Stop operation must be available for an audit in accordance with the requirements of OMB Circular A-133.

Appendices A through E provide additional resources for the user. Appendix D contains a comprehensive glossary. Within the regulations, legislation, and OMB circulars, there may be more than one definition of a single term. When possible, this TAG uses the more extensive definition or the definition found in the legislation. In addition, some terms may have similar definitions that may be named differently, i.e., grant and award. If in any instance the definitions or their use in this TAG appear to conflict with the Act or Federal regulations applicable to each ETA-funded program, such conflict must be resolved in favor of the Act and the regulations, which take ultimate precedence.

Attachment I-Intro-1



Chapter I-1

Identification of Shared Costs

INTRODUCTION

Part I of the TAG is designed to provide operational guidance on the cost allocation and resource sharing requirements of the WIA. The first step in the process is identification of the shared costs. This chapter discusses the types of One-Stop service delivery designs, the types of costs that might be considered as shared costs, the impact of program design on identification of costs, allowable costs, and partner restrictions. The chapter also contains sample lists of costs and the following sections:

- One-Stop System Design
- Identification of Shared Costs
- Uses of Shared Costs
- Allowable Cost Considerations
- Attachment I-1-1—Identifying the Shared Costs Process Flow
- Attachment I-1-2—Sample List of Shared Costs.

ONE-STOP SYSTEM DESIGN

The One-Stop system described in the WIA and the implementing regulations requires the collaboration of a number of Federally funded workforce development activities. The Act and the regulations further stipulate that the required partners in One-Stop activities share in the costs of the system. The shared costs of the One-Stop center or system are those costs that benefit multiple partners. In order to comply with these requirements, WIA One-Stop operators and their partners must first identify what the shared costs of the local One-Stop are, how they are defined and dollar values attached, and subsequently, how those costs will be funded. The design of the local One-Stop system, including the number of physical centers, the access to and flow of services, and the types of services to be provided, will have a major impact on the types of shared costs. It is important to note that, because the WIA One-Stop program is intended to achieve maximum local programming flexibility to meet the needs of each area's customers, the shared costs and resources needed to pay for those costs will vary. The discussion in this TAG is designed to provide options to all partners as they develop the One-Stop system.

As stated earlier, the design of the local program has a tremendous impact on the costs. As described in the *Federal Register* notice dated May 31, 2001, the three basic types of One-Stop systems are:

- **Co-Location with Coordinated Delivery of Services.** Under this model, several or all of the partners coordinate the delivery of program services and share space. Each program retains control of its own resources and maintains a separate identity. While the program services may be coordinated to prevent duplication or overlap, each program pays for its costs as direct program costs to its own program. The only pooled costs are those shared jointly with other partner agencies.

- **Full Integration.** Under this model, all partner programs are coordinated and administered under one management structure. There is joint delivery of program services. As there is also full integration of resources, the costs would then be pooled and allocated back to the partner programs using an appropriate cost allocation methodology.

- **Electronic Data Sharing.** With this model, there is no co-located staff or shared space; only program information is provided. On its own, this model will not comply with the requirements for a full-service One-Stop center. It should be used as a means of supplementing or augmenting the activities and services available at a full-service One-Stop.

The ETA's vision of One-Stop systems is the Full Integration model. The model is customer driven, and the integration of services and management structures will lead to more efficient and effective delivery of services and will increase available services through cost savings. The model may be implemented in phases as partners within the One-Stop system realize the benefits of operating in this manner.

Whatever model is used within a local workforce area, the delivery system impacts on shared costs. For example, in the Co-Location model shared costs may be limited to facilities costs, equipment and some operational costs related to the resource center, while in the Full Integration model, all the costs of the One-Stop, such as facilities, personnel, equipment and supplies, and services or activities such as career counseling, intake, job development, etc., would be pooled and considered to be shared costs. The Full Integration model maximizes the resources available to serve both employers and job seekers and provides for the truly seamless delivery of these services.

IDENTIFICATION OF SHARED COSTS

With the exception of costs under the Full Integration model, not all the costs of operating the One-Stop system will be considered shared costs. Each program will have some direct program costs for those services provided to customers eligible only for its program. This section of Chapter I-1 discusses those costs that might be considered as shared depending on the system design in place at an individual One-Stop center or within a One-Stop system. The more items of cost are considered as shared costs, the easier it will be for partners to fund those costs through available resources.

Those partner agencies providing the services through the One-Stop model for their local area have the responsibility to identify shared costs. For purposes of this TAG and the discussions on cost allocation and resource sharing, shared costs are defined as those costs of the

One-Stop center or system that benefit multiple partners and are incurred in support of the services delivered through a One-Stop. Many of these costs, such as facilities, will be easier to identify, while others, such as the costs of system development, may be more difficult to both identify and define.

The first step in identifying the costs is to determine what costs might be included and to write a preliminary list of the shared costs. Attachment I-1-1 is a schematic showing the tasks in this process. The list of costs in Attachment I-1-2 provides examples of shared costs in a preliminary list format. It is important to note that this listing is not all-inclusive but is intended to provide examples of shared costs.

- **Facilities.** This includes the costs of rent, maintenance, janitorial services, utilities, tenant improvements, etc., that would be incurred for co-located or fully integrated One-Stops.

- **Telecommunications.** This includes the costs of telephone systems, data lines, Internet access, etc.

- **Universal Access.** These costs might include the cost of providing information in the resource center, information on available employer services and on available training providers, developing the marketing plan, labor market information, and the costs of America's Career Kit (Career One-Stop as of September 2002), America's Job Bank, electronic job search information, etc.

- **Common Supplies and Equipment.** These costs include the costs of furniture and other equipment such as computers, fax machines, copiers, etc., as well as those supplies such as paper, printing of brochures, One-Stop center letterhead, signage, etc., that will be used by multiple partner agencies (staff resources) or available for use by customers.

- **Resource Center.** These costs are associated with providing universal access and a common area for self-directed job search, information on available programs, common workshop space, computer labs, distance learning facilities, and other types of client resources.

- **Common Employer Services.** These costs would include the costs of providing specialized screening for employers, initial interviews to determine qualifications, local employer roundtables, or other types of employer-specific services.

- **Common Program Services Staff.** These costs are the salary and benefit costs associated with the common eligibility determination and intake function performed for multiple customers. They also include the staffing costs associated with initial reception at the One-Stop, staffing the resource center, staffing shared core and intensive services, and operational management of the One-Stop center. These costs are designed to maximize program activities and services available at the One-Stop center. The following chart displays a number of programs that have authorized the same or similar common core services. Partner agencies should use this chart as a beginning point in integrating common core services as a shared service and cost.

Based on a review of the legislation and regulations, each of the programs listed in the table provide core and intensive services (regardless of whether the services are labeled by each program as core or intensive). Services are listed in the left-hand column. Programs are listed across the next six columns. A blank indicates only that the specific service is not listed for a specific program, not that the cost item is unallowable. It may be part of another service.

Examples of Common Services

Services	WIA Adult	WIA Dis Wkr	Wagner Peyser*	UI	Welfare to Work	Voc Rehab
Intake & Eligibility	Y	Y	Universal	Y	Y	Y
Indiv. Employment Plan Indiv. Development Plan	Y	Y	N	N	Y	Y
Initial Assessment	Y	Y			Y	Y
Counseling & Guidance/Career Counseling**	Y	Y	Y			Y
Support Services	Y	Y			Y	Y
Outreach	Y	Y			Y	N
Needs-Related Payments	Y	Y				N
Case Management	Y	Y			Y	N
Career Counseling	Y	Y				N
Job Search	Y	Y	Y		Y	Y
Placement Assistance	Y	Y	Y		Y	Y
Job Retention		N			Y	Y
Follow-Up Services	Y	Y			Y	Y
Transportation		Y			Y	Y

* Wagner-Peyser authorizes WIA core and intensive services.
** Career Counseling is not included in Vocational Rehabilitation; however, Counseling and Guidance is included.

When developing this preliminary list of shared costs, partner agencies should also be aware of the provisions of Section 134(a)(2)(B) of the WIA. This section states that assisting in the establishment and operation of the One-Stop delivery system is a required statewide activity. This provision lists a number of activities that may be funded, including the payment of such costs as equipment for the resource room or the One-Stop manager. These activities are also examples of costs that might be considered as shared costs. If the State provides such funding to the LWIA as an enhancement of the local One-Stop system or as an incentive for participation by partner agencies, then the costs associated with these activities would not be included in the shared costs to be allocated to partner agencies. They may also be shown as shared costs that are funded by non-partner resources. This provision is also discussed in Chapter I-4, *Resource Sharing*.

In identifying the costs of the One-Stop, partner agencies should designate fiscal staff with a working knowledge of their program funding and operations to work together to identify, value, and negotiate the shared costs. Once the preliminary list of costs has been identified, a function and benefit statement should be developed for each cost or group of costs. These statements provide the documentation to support the allowability and allocability of shared costs under partner programs.

When defining what comprises the shared costs, grantees and other partner agencies should consider the following:

- **Facilities.** Defining the costs of facilities will depend on a number of factors. If the building is owned by one of the partner agencies, the allowable cost standards will dictate how the requirement for the consistent treatment of costs must be resolved. If the building is leased by one of the partner agencies, then the portion of the lease attributable to the One-Stop operation would be considered as the shared cost. Partner agencies must also determine what the lease/rent payment is in support of and whether the costs include such items as maintenance, security, and janitorial services. If tenant improvement costs are included, the length of the agreement, whether the cost should be depreciated and over what period of time, and whether the improvements comply with regulations on real property and capital assets must also be considered.

- **Technology Costs.** When defining technology costs, the number of workstations, networking capabilities, software needs of partner agencies, licensing fees, and hardware (computers, servers, common printers, scanners) must be considered.

- **Supplies.** When defining shared supplies costs, consideration should be given to such items as letterhead stationary, unique signage for the One-Stop center, brochures (and the associated printing costs) describing services available at the One-Stop, and supplies like copier paper that benefit all co-located staff.

- **One-Stop Management.** The costs of the One-Stop center director would be included as a shared cost benefiting all co-located partners. If the center director also has program management responsibilities such as the WIA program, then WIA would bear a greater share of the cost. Also included in the shared One-Stop management costs would be the staff who greet the public, staff the resource center, and other common operational staff such as information technology (IT) professionals responsible for maintaining the computers and telecommunications.

- **Integrated Program Staff.** If the One-Stop model used in the local area includes integrated services such as the provision of core services or a common intake and eligibility determination system, then the costs associated with these programs or services would be considered shared. Examples of these costs would include salary and benefit costs of staff performing the services, costs associated with developing a common intake form, the costs of automating the eligibility determination system, and costs of core services such as job search assistance or workshops on financial health.

- **Resource Center.** Costs associated with setting up and maintaining a resource center will vary depending upon the size of the resource center and types of activities and services available to the public within it. Consideration should be given to including the equipment necessary to provide electronic access to job postings such as the Wagner-Peyser-funded listings; conference room/classroom furniture and equipment such as liquid crystal display (LCD) projectors, flip charts, etc.; the costs of subscriptions to newspapers and periodicals; and reference books or tools such as job search software or computer learning software. Staffing the resource center could be included in this listing or as separate category. The shared costs of the resource center would not include such items as information relating to a single partner program, one-on-one program services provided by a partner agency staff person, or any other costs that benefit only a single program.

- **Electronic Data Sharing.** The composition of shared costs associated with electronic data sharing will also vary based on program design and the physical layout(s) of the chosen One-Stop model. Consideration should be given to including the costs of necessary hardware and software to create and maintain electronic data sharing, the costs of Web site development, including the necessary electronic links to partner programs (whether they are co-located or not), networking costs such as servers, staff to maintain the electronic system, the development of common data systems such as intake and eligibility and the training needed for staff to utilize them, the costs of computer-assisted learning for customers, etc. Additionally, similar costs will be associated with providing electronic job search or One-Stop information through a system of computer terminals located within the community such as at kiosks in a local shopping mall or within government buildings such as a courthouse.

USES OF SHARED COSTS

Using a preliminary list of shared costs, partners should then begin the process of identifying how the costs are of benefit to each of the partner programs. This is done through the development of function and benefit statements for each cost item or group of costs. The function and benefit statement provides each partner with an understanding of how the shared costs will benefit its particular program. Under some models, not all shared costs will benefit all partners. For example, within the resource center, costs associated with printed forms and documents may benefit only a single program. Inclusion of these materials within the resource center does not mean that the cost must be shared. Often, a partner will not see the benefit to be derived from participating in some of the shared costs. When a partner or partners refuse to participate in a shared cost, then they must bear their own direct costs for the activity or function until the remaining partners demonstrate the benefit of sharing the cost. This issue is also discussed in Chapter I-3, *Proportionate Share and Cost Allocation*.

The next important step in the identification of shared costs is developing the dollar value for costs. It is important that grantees and partner agencies do not develop the actual cost data through assigning the resources each agency will need to provide to support the One-Stop system. One problem that has been encountered within the One-Stop system is the tendency of partners to decide in advance how they will provide resources to fund shared costs, without taking the first step of defining what those costs should be or how much they are.

If the One-Stop operator is responsible for incurring operational costs such as rent for co-located space or payment of the janitorial costs, then these costs will be known. If equipment has been bought in the recent past by a partner program, then these costs will be known. When no hard cost information is available, the partner agencies should estimate or use averages (for example, using fair market value to determine the cost or to develop use allowances) to cost out the items in question. Once the costs have been estimated, they can be refined through the budget development and cost allocation processes to follow.

ALLOWABLE COST CONSIDERATIONS

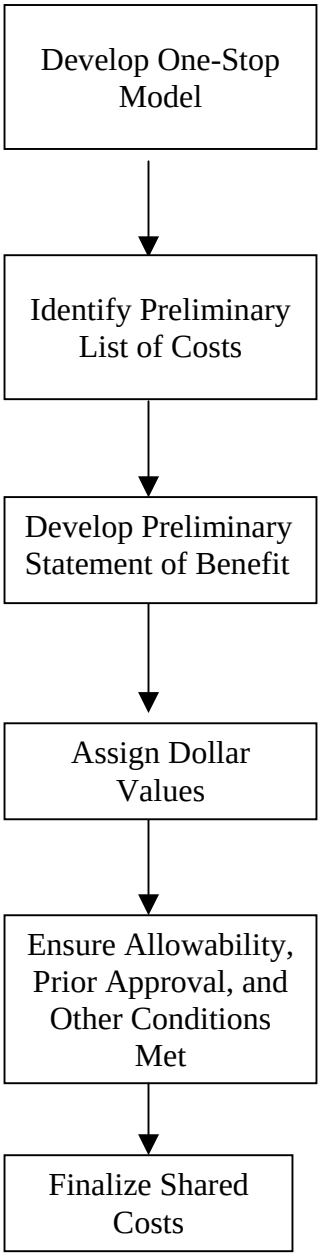
Grantees and partner agencies are required to adhere to the cost principles embodied in the OMB circulars and reflected in program regulations. Each partner should bear the responsibility for determining the allowability of shared costs under its own program requirements. Each partner is also responsible for ensuring that the costs receive consistent treatment across programs as required by the Federal cost principles. For all Federally funded required partners, the OMB circulars will apply. Therefore, unless the costs are prohibited under program legislation, regulations, or the OMB circulars, the shared costs identified in this step should be allowable for all required partners. If the shared costs relate to the purchase of equipment, capital improvements, or other services requiring the approval of the awarding agency, that approval requirement is met by the agency providing the resource. For ETA formula grantees, that approval authority has been delegated to the Governor. These requirements are more fully discussed in Chapter I-4, *Resource Sharing*.

Occasionally, a shared cost is unallowable under the Federal program regulations of a partner agency. Unless the cost does not benefit the partner with the prohibition, it must be allocated to all benefiting partners. The partner under whose program the cost is unallowable would be responsible for identifying a non-Federal source of funds to cover the cost(s). The cost could not be allocated to only those partners under whose programs the cost is allowable, as this would signify that they had paid more than their fair share of the cost, in violation of the Federal cost principles. This concept is discussed again in Chapter I-3, *Proportionate Share and Cost Allocation*.

ATTACHMENTS

There are two attachments to this chapter. Attachment I-1-1 shows the progression of activities in the task of identifying shared costs. Attachment I-1-2 is a sample list of shared costs with dollar values and function and benefit statements provided for a few of the costs. The list is not all-inclusive but is intended to provide grantees and partner agencies with a beginning point to develop their own lists of shared costs. This list will also be used in Chapter I-2, *Shared Costs Budgets*.

Identifying the Shared Costs Process Flow



Attachment I-1-2

Sample List of Shared Costs

Cost Item	Yearly Cost	Benefit
Facilities Costs		
Rent	$100,000	Leased space provides central access to services, thereby benefiting all co-located partners.
Tenant improvements (Length of Agreement)	$25,000 ($50,000 total costs) 2 years	Changes will enhance service delivery, provide for universal access and compliance with the Americans with Disabilities Act (ADA). Improvements spread over life of agreement.
Building maintenance		
Building security		
Operations Costs		
Telephone costs		
Data/communications cost		
IT maintenance		
Shared equipment		
Copier (staff use)		
Fax (staff use)		
Common supplies		
Paper for copier, fax, etc.		
Pens, pencils, other supplies		
Equipment maintenance		
Resource Center		
Supplies		
Software		
Hardware		
Printed materials		
Other (List Each Cost)		
Employer services		
Electronic data sharing		
Common Staff (Position)	Expressed as $$ or full-time equivalent (FTE)	
Center director		
Receptionist		
Core services staff		

Chapter I-2

Shared Costs Budgets

INTRODUCTION

This chapter discusses the second step in the process—the development of a shared costs budget. It includes a discussion of how the shared costs budget will differ from partner agency budgets, the structure of the budget, and the relationship of the shared costs budget to each partner agency budget. It also includes budget templates and a sample budget. The chapter contains the following sections:

- Budget Development and Structure
- Relationship to Partner Agency Budgets
- Modification and Adjustment
- Benefits
- Attachment I-2-1—Developing a Shared Costs Budget Process Flow
- Attachment I-2-2—Sample Budget Format 1
- Attachment I-2-3—Sample Budget Format 2.

BUDGET DEVELOPMENT AND STRUCTURE

As part of the process for determining the shared costs and the resources available to fund the One-Stop operations, the One-Stop operator and partner agencies need to develop a common budget document that displays the agreed-upon shared costs. A common budget document gathers the shared costs of the One-Stop center or system into a single document and provides all partner agencies with a roadmap of the One-Stop costs that they will share in funding. The budget provides all partners with a standard plan for One-Stop expenditures over time. A schematic showing the steps in the budget development process is Attachment I-2-1 to this chapter.

Any number of budget formats may be used. The key in this step is for the partners to agree upon a single format that may be used to trace costs to their own agency budget documents and that reflects only the shared costs identified by the partners. Budget structures vary among organizations but usually contain listings of proposed costs for operation and services grouped within either line items or cost pools.

The use of a single standardized budget format helps all partners to develop and present the costs in a way that is understood by all the partner agencies. Without this standardization, it is difficult to be sure that the costs are appropriately identified and costed. A standardized set of

budget forms makes coordinating and compiling the shared financial information much easier because it gives all partners the same basic pattern for presenting the information, the same set of questions to answer, and the same detailed instructions for completion. A standard format also provides partners with an easier method to review and adjust the budgets based on actual expenditures or to modify the budgets with the addition of new partners or integrated services.

Whatever format is chosen or used by the partners to display the shared costs, the information required to complete the budget process comes from the list of shared costs discussed in Chapter I-1, *Identification of Shared Costs*. The costs would be grouped by services, cost objects, line items, etc., and projected over the budget period. The information in the budget will form the basis for determining the proportionate share attributable to each partner and the cost allocation among the partners, and will indicate the types of resources that will be needed. The resource sharing step of the process is discussed in Chapter I-4, *Resource Sharing*.

Prior to finalizing the shared costs budget, partner agencies should ask the following questions and make any adjustments to the budget that might be necessary:

- How valid are the assumptions used in calculating the budget figures? Are the assumptions used consistently across the whole budget? Examples of some assumptions used in developing the budget would be the number of customers using the center on a monthly basis, the need for audio-visual equipment, the need for staff to provide common services or conduct intake and eligibility determinations, maintenance needs, or utility costs based on weather, etc.

- What supporting information or documentation was used in developing the budget? How accurate was the information? The partners, as a group, must decide what source of information will be used to determine the dollar amounts for each shared cost.

- What process was used to develop estimates used in developing the budgets? Are controls in place to ensure accurate estimates based on supporting documentation rather than estimates tailor-made to generate a preconceived bottom line?

- How will possible changes in operation, client flow, need for services, etc., influence the assumptions and calculations used in developing the budget?

- What is the impact of partner agencies coming on board at different times or partner agencies withdrawing from participation?

- How closely does the overall budget and its specific numbers compare with similar or related budgets within the same area or organization? **Note:** This question may not be relevant during the first year of operation as a One-Stop but will be necessary to ask in subsequent program years or budget periods.

RELATIONSHIP TO PARTNER AGENCY BUDGETS

The shared costs budget developed for the individual One-Stop center or for the One-Stop system as a whole is distinct from the budgets traditionally prepared by an agency. It provides a roadmap of shared services and costs but is not tied to a revenue source. The revenues that will be used to fund the budget are, in fact, the resources each agency will provide. It is critical that the shared costs budget information (cost items and amounts) developed by the partner agencies can be traced to a partner agency budget, and then to the partner agency books of account, in order to comply with the OMB circular requirements for cost principles and cost allocation. Consistency with partner records is not independent, but interdependent. The shared costs also need to be available for audit under the provisions of OMB Circular A-133.

Partner agencies may wish to code line items or object classes in such a way that the costs may be traced to each partner's own agency budget. Partners could develop a code listing all the budget items within the shared costs budget and cross-reference the items to each partner agency's budget items.

> **Example:** The shared costs budget could list salaries of common staff positions as Classification 1000. The cross-reference list would display the classification thus:
>
> 1000 Salaries
> Partner A – 2330
> Partner B – 5001
> Partner C – 5000
> Partner D – 7000

Many of the costs contained in the shared costs budget will require the prior approval of the granting agency. These items should be designated as prior approval condition items. The agency initiating the purchase of the item when the actual resources are identified will have the responsibility for obtaining the appropriate approval from its grantor agency. This requirement is also addressed in Chapter I-1, *Identification of Shared Costs*, and Chapter I-4, *Resource Sharing*.

MODIFICATION AND ADJUSTMENT

Once the budget document has been finalized and approved by all the partner agencies, it will not just sit on a shelf gathering dust. The budget is a dynamic document, subject to change as programs and service needs change within the One-Stop environment. The One-Stop operator and partner agencies must also decide what process will be used to modify or adjust the budget as the need arises during the program year. There are numerous reasons why a budget might need to be modified. For example, as the One-Stop moves from simple co-location to a model of fully integrated services, the budget will need to be modified to include the additional shared costs of providing common services. Also, the budget is usually developed using estimated dollar values. As the costs become known, and as the One-Stop operation becomes more refined, the budget will need to be adjusted. The decision on when the budget is to be modified

remains a local decision of the One-Stop operator and the partner agencies. However, a budget modification or adjustment does not require a modification to the MOU unless required by the terms of the MOU. The MOU modification process is spelled out in the MOU and will relate to the services, relationships, and terms discussed in the MOU. A simple adjustment to the budget based on actual costs would not alter the relationships or referral mechanisms contained in the MOU. If, however, the MOU is modified, partner agencies are cautioned that they should review the shared costs budget, allocation process, and the RSA, and modify them as necessary. If, for example, an additional partner begins providing services at the One-Stop center, then the RSA and the MOU would both be modified.

The budget should be reviewed and adjusted on a periodic basis, at least quarterly, by all the partner agencies. As most Federal grant programs require quarterly financial reporting, it would be easy to schedule a review and adjustment of the shared costs budget in the month following the report submission.

> **Example:** The shared costs budget for a One-Stop center indicates a need for an LCD projector. At the time the projector is acquired, the partner providing the resource is able to combine the purchase with a similar purchase for its agency and receives a discount. Thus, the original planned cost is less than estimated. The budget would be adjusted to reflect this in the quarter following the purchase.

BENEFITS

The development of a shared costs budget is an important planning and managerial tool. Properly done, it involves a careful review of the One-Stop center's programs, activities, and goals and allows judgments to be made about which are relatively more important than others and what resources to commit to each one. Budgeting is a natural component of the overall One-Stop planning and management process in at least four ways:

- A budget shows the LWIB and partner agency managers all the work of the One-Stop, places these programs in relation to one another, and provides a clear illustration of the overall direction and effort of the One-Stop.

- All of the One-Stop's projects, commitments, services, and customer flow are reflected somewhere in the budget. It affords the LWIB and managers a place to start when they want to combine services or provide a more comprehensive system of services to customers.

- The budget shows all the proposed shared expenditures and thus gives a very clear picture of the resources needed by the One-Stop center or system during the upcoming budget period. By consolidating the needs for different types of services, managers may achieve economies of scale and make use of equipment, training resources, or staff that might otherwise be underutilized.

- As the budget is a visual reminder of the shared costs and services of the One-Stop center or system, it provides a "checklist" that the LWIB and partner agencies can use to ensure they know and approve of the services being conducted.

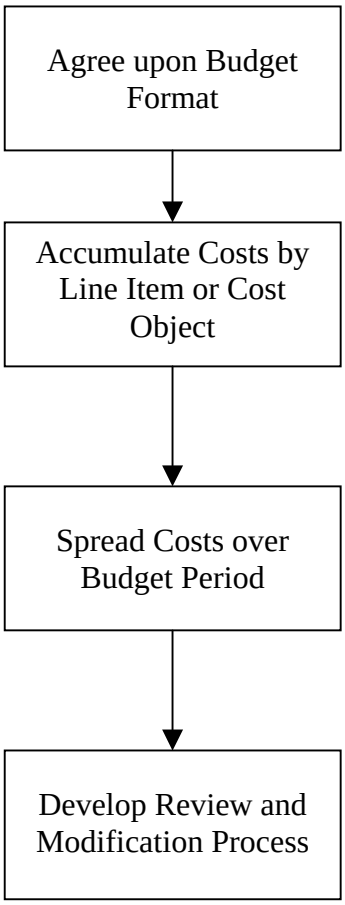
The development of a shared costs budget will also make the move to a Full Integration model easier to accomplish, as partner agencies will be aware of all the costs.

ATTACHMENTS

There are three attachments to this chapter. Attachment I-2-1 provides the progression of activities that must be undertaken to develop a shared costs budget. Attachments I-2-2 and I-2-3 are sample budget formats that might be useful for partner agencies. Each format displays the required information in a slightly different manner. These formats may be modified as needed to meet local One-Stop design and management considerations.

Attachment I-2-1

Developing a Shared Costs Budget Process Flow



Attachment I-2-2

Sample Budget Format 1

Date:_____

One-Stop Name:_____

Location:_____

Cost Item	Cost Basis	Monthly Cost	Yearly Cost
Facilities Costs			
Rent	Actual	$5,000	$60,000
Tenant improvements			
(Length of agreement)			
Building maintenance			
Building security			
Operations Costs			
Telephone costs			
Data/communications cost			
IT maintenance			
Shared equipment			
Equipment maintenance			
Resource Center			
Supplies			
Software			
Hardware			
Printed materials	Estimate	n/a – one-time cost	$5000
Other (List Each Cost)			
Common Staff (Position)			

For each of the costs listed in the budget, complete the following:

Cost Item	Description of Cost	Partner Benefit
Rent	Rent for leased space of One-Stop center, includes all utility costs.	Leased space provides central access to services, thereby benefiting all co-located partners.
Tenant improvements		
Telephone costs		
Data/communications cost		
IT maintenance		
Shared equipment		
Equipment maintenance		
Resource Center		
Supplies		
Software		
Hardware		
Printed materials	This cost includes a unique letterhead designed for the One-Stop center and two brochures for distribution to employers and the general public.	Identification of a comprehensive One-Stop will provide single point of access for employers and clients, increasing performance.

Attachment I-2-3

Sample Budget Format 2

Cost Item	Quarter 1	Quarter 2	Quarter 3	Quarter 4	Totals
Shared Services Staff					
Staff salaries					
Fringe benefits for staff					
Staff travel					
Facilities					
Rent					
Utilities					
Security					
Maintenance					
Communications					
Base telephone					
Long distance					
T-1 lines					
Etc. for All Shared Costs					

Chapter 1-3

Proportionate Share and Cost Allocation

INTRODUCTION

This chapter discusses the third step in the process: the determination of proportionate share and allocation of the shared costs by partner agencies. It includes a discussion of the various methods that might be used by the One-Stop operator and partner agencies to determine their proportionate share of the costs. It also includes a discussion of cost allocation requirements for Federal grants, cost allocation in the One-Stop setting, allocation bases, and their application to shared costs. The chapter contains discussions on the use of spreadsheets, the cost allocation plan for shared costs, and includes sample allocation formats. It also contains a discussion of what steps should be taken when costs benefit non-participating partners or when the identified shared costs are unallowable to a particular partner. The chapter contains the following sections:

- Determining Proportionate Share
- Cost Allocation Requirements
- Allocation Methodologies
- Allocation Bases
- One-Stop Cost Allocation Plans
- Additional Considerations
- Attachment I-3-1—Steps in the Cost Allocation Process
- Attachment I-3-2—Shared Costs by Partner
- Attachment I-3-3—Cost Allocation by Item of Cost
- Attachment I-3-4—Sample Allocation Table
- Attachment I-3-5—One-Stop Center Shared Costs by Program.

DETERMINING PROPORTIONATE SHARE

The WIA regulations require that each partner contribute a fair share of the operating costs of a One-Stop system proportionate to the use of the system by customers who are attributable to the partner's program. [20 CFR 662.270] While this requirement is intended to ensure that partners establish standards for whether or not each partner program is required to share in a particular cost, it does not prescribe the exact methodology to be used to allocate shared costs nor determine each partner's proportionate share. In fact, the regulations make it clear that partner agencies may choose from any number of methods, provided they are consistent with the OMB circulars. Any method that initially uses estimated numbers, whether

participants, data elements, space use, or other costs that must use pre-budgeted amounts, must be adjusted to actual data when it is available.

Determining the proportionate shares attributable to the specific partner programs is the preliminary phase in the process. In this preliminary stage, the partners review the shared costs budgets, determine which methodologies are acceptable, and, from the acceptable methodologies, which method should be applied to the shared costs. In other words, the partners are selecting the appropriate allocation base for the shared costs.

One simple method that may be employed to determine proportionate share would be based on participation by eligible customers. Under this method, in its most basic form, the proportionate share would be determined by comparing the number of individuals either eligible for or receiving services from a partner to the total number of participants served.

> **Example:** The One-Stop center provides for a common core service of career counseling for six partner agencies. The costs of the shared service have been identified within the shared costs budget and pooled for a total dollar amount of $100,000. The six participating agencies determine the estimated number of participants attributable to their particular program. The results of this cost allocation are displayed below:

		Proportionate Share	
Partner	No. of Participants	Percent (%)	Dollars ($)
1	150	15	15,000
2	100	10	10,000
3	50	5	5,000
4	300	30	30,000
5	200	20	20,000
6	200	20	20,000
Total	1,000	100	100,000

This same method could be applied to the total shared costs to calculate an equitable share by partner. However, caution should be used when using unweighted participant counts to the exclusion of other methods. This is because the number of participants does not always, nor even very often, equate to effort. Using the above example, the amount of time spent on counseling Partner 1's clients may be quite different from the amount of time spent counseling Partner 2's clients. If this were the case, participant counts would result in a disproportionate share of the costs being borne by one or more of the partners. Participant counts might be more useful if used to determine the proportionate share of universal access costs separate from other types of shared costs such as space or staff effort. Another way to make participant counts more useful is to weight the counts based on some measurable base such as time or effort.

Another method that might be used to determine the proportionate share of common services such as intake and eligibility determination would be the use of data elements. Distributing the costs of a common intake system may result in a considerable savings to the partner agencies. Rather than each agency spending its resources on eligibility determination, a

common system, with a single intake form, is developed by the partners. The *Federal Register* notice dated May 31, 2001, provides such an example. Even if one partner program chooses not to participate in the activity, the costs of the shared activity may still be considered shared by the participating partner programs.

There are a number of methods and bases that might be used to determine proportionate share. Once the methods have been developed, negotiated, and approved by the partner agencies, they may be used in cost allocation to distribute the shared costs.

COST ALLOCATION REQUIREMENTS

The costs of the One-Stop may be categorized in one or more of the following ways:

- Direct costs, where the final cost objective is known or a single cost objective or program benefits
- Shared costs that may be readily allocated to the benefiting cost objectives or partners through either direct charges or application of a cost allocation methodology
- Indirect costs, incurred for common or joint purposes benefiting more than one cost objective, but which are not readily identified or assigned to the benefiting cost objective (and usually recovered through an indirect cost rate).

The cost allocation guidance provided in this chapter relates to the shared costs of the One-Stop. Direct costs attributable to a single grant program or partner would not be reflected in the shared costs budget, nor would they need to be allocated. Indirect costs are attributable to an organization or entity and likewise would not be reflected in the shared costs budget, nor would they need to be allocated.

The requirements and guidance for cost allocation in Federal grant programs is found in the OMB circulars containing the cost principles. These are:

- OMB Circular A-21 – Institutions of higher education
- OMB Circular A-87 – State and local governments
- OMB Circular A-122 – Nonprofit organizations
- 48 CFR Part 31 – Commercial organizations.

Each of the circulars requires that costs be allocated on the basis of benefit received. Benefit received is usually expressed through the application of a mathematical formula to a cost item or pool, resulting in the distribution of the cost to a number of final cost objectives. A cost objective is an activity for which separate cost measurement is performed. A further distinction is made between intermediate and final cost objectives.

An <u>intermediate</u> cost objective can be a cost pool, center, or area established for the accumulation of costs and may be assigned within the One-Stop to such dissimilar categories as functions, objects, or items of expense. <u>Final</u> cost objectives include specific funding sources, cost categories, grants, program activities, projects, contracts, and/or other activities. The final

cost objectives discussed in this chapter are the partner programs and organizations that will fund the shared costs.

Measuring benefit is the critical requirement and central task to be performed in allocating costs. It is important that the One-Stop partners understand and agree that costs are allocable to a particular cost objective or program only to the extent of benefits received by that partner program. Likewise, costs that do not benefit a particular cost objective are not allocable to and cannot be charged to that cost objective.

For a cost to be allocable to a particular cost objective, it must be treated consistently with other costs incurred for the same purpose in like circumstances. A cost may not be assigned to an award as a direct cost if any other cost incurred for the same purpose, in like circumstances, has been allocated to an award as an indirect cost. Costs identified specifically with awards are direct costs of the awards and are to be assigned accordingly. Costs identified specifically with other final cost objectives of the organization are direct costs of those cost objectives and are not to be assigned to other awards directly or indirectly.

Within the One-Stop system, costs may be aggregated in any manner agreeable to the partners, provided that the costs are accumulated and treated consistently, as required by the OMB circulars. Once the cost pools have been determined, the partners must develop and agree upon allocation methodologies to distribute these costs among the partners.

ALLOCATION METHODOLOGIES

Within the One-Stop system, the costs may be aggregated and allocated using any methodology agreed upon by the partners and which reflect the best measure of benefit received by the partner programs. These shared costs may be allocated:

- **In the aggregate.** Using this approach, the shared costs of the One-Stop center or system are totaled. A single allocation base is chosen by the partners and applied to the total costs. The resulting distribution constitutes the total shared costs of each partner. For example, all the shared costs of the One-Stop center are pooled and allocated using a cost per hour of operation basis. Pooling the costs in the aggregate may also be appropriate for large local areas such as a Balance of State Workforce Investment Area or a single Local Workforce Investment Area (LWIA) State where the preponderance of funds comes through one or two State agencies. For example, a State agency is responsible for administering the LWIA as well as the local partner programs under Wagner-Peyser, Unemployment Compensation, Veterans' Employment programs, Trade Adjustment Act, and WtW programs, and another State agency has the responsibility for administering both the Education and Rehabilitation Services programs.

- **On an activity basis.** Using this approach, the costs associated with a particular function or activity are pooled. An allocation base is developed for each pool, usually related to the costs being allocated, and applied. The resulting distribution of costs reflects each partner's share of the activity or function. The costs for each function or activity being allocated

would be added together for the total shared costs by partner. For example, the costs of a combined intake and eligibility determination system could be pooled and allocated on the basis of data bytes on common forms attributable to each program, or the costs of common core services such as career counseling could be pooled and allocated on the basis of a time distribution system.

- **On an item of cost basis.** Using this methodology, each item of cost is allocated to the benefiting partner program using a separate allocation methodology. Examples of this basis would be building rental costs allocated on a square footage basis or telecommunication costs allocated on a number of units used basis.

- **On a combination basis.** Grantees and partners may also allocate costs on a combination of the above bases by allocating some costs on an activity basis and other shared costs on an individual item of cost basis.

Whatever methods the One-Stop operator and partner agencies use to allocate the costs, the methodologies or allocation bases used to distribute the costs among the partner programs must:

- Result in an equitable distribution of shared costs. In other words, no partner may be charged more than its fair share of the costs.
- Correspond to the costs being allocated.
- Be efficient to use.
- Be consistently applied over time.

These requirements apply to any costs that are allocated to Federal grant programs, not just the shared costs of the One-Stop. Thus, these requirements and the following standards should be familiar to the partner programs sharing the costs. In addition, any methodology that is used must meet the following standards:

- Be consistent with Generally Accepted Accounting Principles (GAAP), a set of standards that governs the treatment of costs, revenues, assets, etc., within an organization's books of account.
- Be consistent with the applicable OMB circulars and the uniform administrative requirements. Additional information on these requirements may be found in Chapter II-8, *Cost Allocation and Cost Pooling*, of this TAG.
- Be accepted by each partner's independent auditor to satisfy the audit testing required under the Single Audit Act (SAA). Each partner bears the responsibility to provide the cost allocation and resource sharing information to its independent auditor to ensure acceptance.
- Be supported by actual cost data. As part of the RSA (discussed in more detail in Chapter I-5, *Resource Sharing Agreements*), each partner must provide information on actual resources used or costs incurred, and these are reconciled with the estimates used in the preliminary allocations.

- Be consistent with the overall program design and services approach utilized within the One-Stop system.

ALLOCATION BASES

Within these requirements, there are a number of methods or allocation bases that may be used to distribute the shared costs. These methods may be designated as input-based allocation bases or output-based allocation bases.

Inputs are the resources used in a process, activity, or service and are the most commonly used allocation bases. Using inputs, the cost is allocated at the same time it is incurred, and the usage must be documented. Examples of input bases include staff time allocated on the basis of time sheets and time distribution records, facilities allocated on the basis of square footage, accounting services allocated on the basis of transactions, and equipment or supplies allocated based on usage. Chapter II-8, *Cost Allocation and Cost Pooling*, contains a list of the most commonly used input bases and their application.

Outputs are the results of an activity or service. Examples of output allocation bases include participants eligible for or receiving services under a specific program, number of customers obtaining employment after self-directed job search, and number of clients receiving a specific core service. One of the problems associated with output-based allocations is that they will vary over time, usually based on client flow. For this reason, output-based allocations may result in major changes in the resources needed to fund the shared costs when the budgets are adjusted to actual costs and should be used with caution.

> **Example:** The partners agree to have a common job development and placement activity. The shared costs of the activity, including the salaries, fringe benefits, support costs, and any participant-related costs are combined for all partners participating in the provision of the service. The costs could then be allocated either on the basis of clients served by partner program or on the basis of job placements attributable to each program. An example of an input-based allocation base for distributing these costs might be based on the average time spent on services to a customer that results in a placement.

Another example of an allocation base that may be appropriate for use in allocating some of the shared costs of a One-Stop center or system is an “equal access” allocation base. Using this base, access to the services or function being considered as a shared cost is determined by the partners to be of equal benefit to all participating partners; therefore, the costs are allocated on an equal share to each participating partner. This base may be suitable for use by the partners in allocating universal services costs or the costs associated with the display and provision of information related to the services available within the One-Stop center.

> **Example:** The partners have agreed to aggregate the costs associated with the resource center in the One-Stop and use a single allocation base to distribute the costs. The resource center costs include the costs of equipment and supplies such

as furniture; computer terminals and appropriate software; display racks for information on employers, jobs, and available services; as well as the personnel costs associated with staffing the resource center function. In this case, the partners have further agreed that access to the resource center is of equal benefit to all participating partners. The total costs of the resource center are then allocated equally to all participating partners.

OMB Circular A-87, Attachment A, paragraph C.3.c states, "Any cost allocable to a particular Federal award or cost objective under the principles provided for in this circular may not be charged to other Federal awards to overcome fund deficiencies, to avoid restrictions imposed by law or terms of the Federal awards, or for other reasons. However, this does not preclude governmental units from shifting costs that are allowable under two or more awards in accordance with existing program agreements…" The language of the circular does not mean that unrecovered costs of one grant may be unilaterally shifted to another or that costs do not have to be allocated based on relative benefits derived. The intent is to recognize that some programs cover or include identical populations meeting the same eligibility requirements and whose programs allow the same services. For example, Program A eligibility requirements are the same as those for Program B. When an eligibility determination is completed that satisfies the requirements of both programs and the participant is determined eligible for both, a portion of the costs attendant to the eligibility determinations could be allocated to each. If both programs allowed the reimbursement of transportation costs to seek a job interview, then those costs could be charged, in their entirety, to either. This can be particularly useful when, for example, one program places a limitation on the amount of transportation expenses and the other does not. Once the limitation on benefits has been reached on one program, reimbursement from the other would begin (assuming eligibility continues in the latter program).

Additional guidance on this concept has been issued by the United States Department of Health and Human Services, Assistant Secretary for Management and Budget (ASMB). The guidance is found in ASMB C-10, *An Implementation Guide to OMB Circular A-87*. Agencies may charge such costs directly to any of the programs under which they are allowable, in whole or in part, using an allocation method. Costs that are allowable under more than one program may be allocated in part to each program using a standard allocation base, in part to each program using a discretionary amount, or in total to one program. Charging the costs in this manner may be more appropriate for program services when the clients are enrolled in and receiving services from multiple partner programs.

There is no single best base to use to allocate shared costs. Each One-Stop is structured to meet local needs and is therefore unique. The base that is chosen will depend on the type of cost being allocated, be consistent with program design, and should be directly related to the allocated costs.

Utilizing the concepts for cost allocation presented in this chapter, the following table shows examples of shared costs and methods for allocation that may be used by One-Stop operators and partner agencies.

Cost Pool	Allocation Base
Facilities: Building rent, maintenance costs, utilities, tenant improvements, or any other similar costs related to the physical structure housing the One-Stop center.	Square footage occupied by each partner agency as compared to the total space, workstation usage by partners as compared to total workstations.
Telecommunications: Monthly telephone costs, telephone system equipment, data lines, T-1 lines, and other similar costs.	Dedicated telephone units as compared to all units. Equal access to Internet for data costs.
Information Technology: Shared equipment, software, IT maintenance costs, Internet access, and other similar costs.	Number of dedicated computers (including all necessary equipment) as compared to total.
Resource Center: Costs of shared equipment, displays, computer learning, specialized software for computer learning, furniture, copier, fax machine; may also include related staff costs.	Equal access by customers of all partner programs results in equal costs for each partner. Customers attributable by partner program. Number of customers receiving services within the resource center.
Common Intake System: Costs of developing common intake data formats, preparation and interview of customers, and similar costs.	Use of common data formats and bytes of information required for each program. Use of a time study to determine the amount of time required for specific program data compared to the time needed to complete the process for an individual customer.
One-Stop Center Management: Costs of the center director, receptionist, staff of the resource center.	Number of customers eligible for or receiving specific program services. Direct costs by partner. Total costs by partner as compared with total of all partners.
Shared Equipment and Supplies: Staff copier, fax, associated supplies, furniture.	Usage by staff of each partner program. Occupancy (square footage) basis; numbers of staff workstations.
Common Core Services: Staff and benefit costs, development of common forms for case management, and similar costs.	Time distribution system (time sheets, work sampling, time and motion studies); numbers of clients eligible for specific program; weighted participation numbers.

It is important to note that each of the possible cost allocation bases listed in the above table would be acceptable. However, each of the listed bases may result in a somewhat different dollar amount allocated to each partner when applied to the pool. This may result in one or another of the partners preferring the use of an allocation base that results in lower shared costs for their programs. This will no doubt be unacceptable to the other partners whose costs are higher though the application of the base. The allocation base used to determine proportionate share must be negotiated and agreed upon by all the partners and must bear a relationship to actual benefits received by each partner.

Cost allocations or the results of the application of an allocation methodology to a cost pool are often displayed through the use of spreadsheets. One reason to use the spreadsheets is that, once the data has been entered, it is easy to modify the projected allocations based on actual cost or participant data over the period covered by the agreement.

ONE-STOP COST ALLOCATION PLANS

The cost allocation plans utilized in the One-Stop setting may not be the same as the standard cost allocation plans required by an organization. The cost allocation plan for the shared costs will address only those shared services and operating costs of the One-Stop system, and the allocations will cover more than one agency. However, it is important that the allocation plan developed by the partners contains the information required by the WIA regulations, i.e., a description of the allocation methodologies used to distribute the shared costs. Partners must be able to support the level of participation in the shared costs and services in terms of the benefit received by each partner. The cost allocation plan discussed here is a required and integral part of the RSA developed to fund the shared costs. The partners may either integrate the plan into the RSA or reference the plan as an attachment to the RSA. The cost allocation plan for One-Stop shared costs should include the following elements:

- The costs pools used to accumulate the shared costs. Each pool should contain the specific cost items and the dollar values attributable to each item. A benefit statement should be developed for each pool. This step should have been completed when the shared costs were first identified.
- A description of the allocation methodologies used to distribute each pool. The description should be specific enough to trace the costs from the pool to the final cost objective or partner program and should clearly demonstrate the equitability of the allocation methodology. Data resources necessary to perform the allocations must be identified.
- A spreadsheet that displays the application of the allocation base to the shared costs. The spreadsheet reflects the costs attributable to each partner.
- A description of the process to be used by the partners to reconcile actual costs to any cost projections used in the initial allocations and to adjust allocation methods based on service delivery changes or partner participation.

ADDITIONAL CONSIDERATIONS

It is important to remember that cost allocation must be done with actual costs. While the partners may agree on a methodology(ies) to determine the proportionate share of costs by partner and conduct preliminary allocations based on estimates or the shared budget, these estimates <u>must</u> be reconciled to actual costs on a periodic basis, coinciding at a minimum with Federal quarterly reporting requirements. An integral part of this step in the process is developing a schedule for the provision of information and the reconciliation process.

In order for the cost allocations to be performed, partner agencies must share information that may be used in the allocation methodology. For example, if the allocation base requires numbers of customers receiving a specific service from a partner agency, then that information must be made available to all partners in a timely manner. There may be privacy considerations associated with the provision of this information, and these issues should be resolved before the process is completed.

The reconciliation and adjustment process will require the provision of actual financial information by partner agencies. As with customer information, this data must be provided to all partners on a timely basis. Any issues related to privacy considerations must be resolved before the cost allocation and resource sharing process is completed, and the time frames for providing the information should be included in the reconciliation process.

There may be times during the negotiations among partners on the identification of shared costs when a partner organization refuses to participate. The partner may indicate that the refusal is based on the fact that the cost is unallowable under its program regulations, or it may refuse on the grounds that it believes no benefit is derived from its participation. When this occurs, the remaining partners are faced with funding the cost. There are three classes of non-participation, one or more of which may apply in any given situation:

- The cost is unallowable under the partner program
- The partner receives no benefit from the shared cost
- The partner refuses to fund a share of the cost, even when there is a demonstrated benefit.

If a partner agency claims that a shared cost is unallowable under its program legislation or regulations, it should provide the appropriate citation. However, if the cost benefits a partner agency, and that benefit has been demonstrated in the function and benefit statement included in the shared cost budget, then the partner agency has the responsibility to pay its fair share of the cost even if the cost is unallowable to that partner for payment with Federal funds. To remove a partner from the allocation or distribution of the cost would require the remaining partners to pay more than their fair share, in violation of the Federal cost principles. In this instance, the cost would be allocated to all benefiting partners, and the partner for whom the cost is unallowable would be required to provide a non-Federal resource for its share of the cost.

> **Example:** One of the shared costs of the One-Stop center is printing. The printing costs are for brochures listing all the participating partner agencies. Printing costs are unallowable under Agency X's program regulations. The costs are allocated among all partner agencies, as they and the services they provide are all contained in the brochure. In this example, Agency X would need to identify a non-Federal source of revenue for its share of the cost.

If, on the other hand, a partner agency claims that no benefit is derived from participating in the shared cost, then the remaining partners are responsible for allocating and paying for the cost among themselves. If the partner chooses not to participate, then it is responsible for incurring any cost for the activity or function as a direct cost to its program.

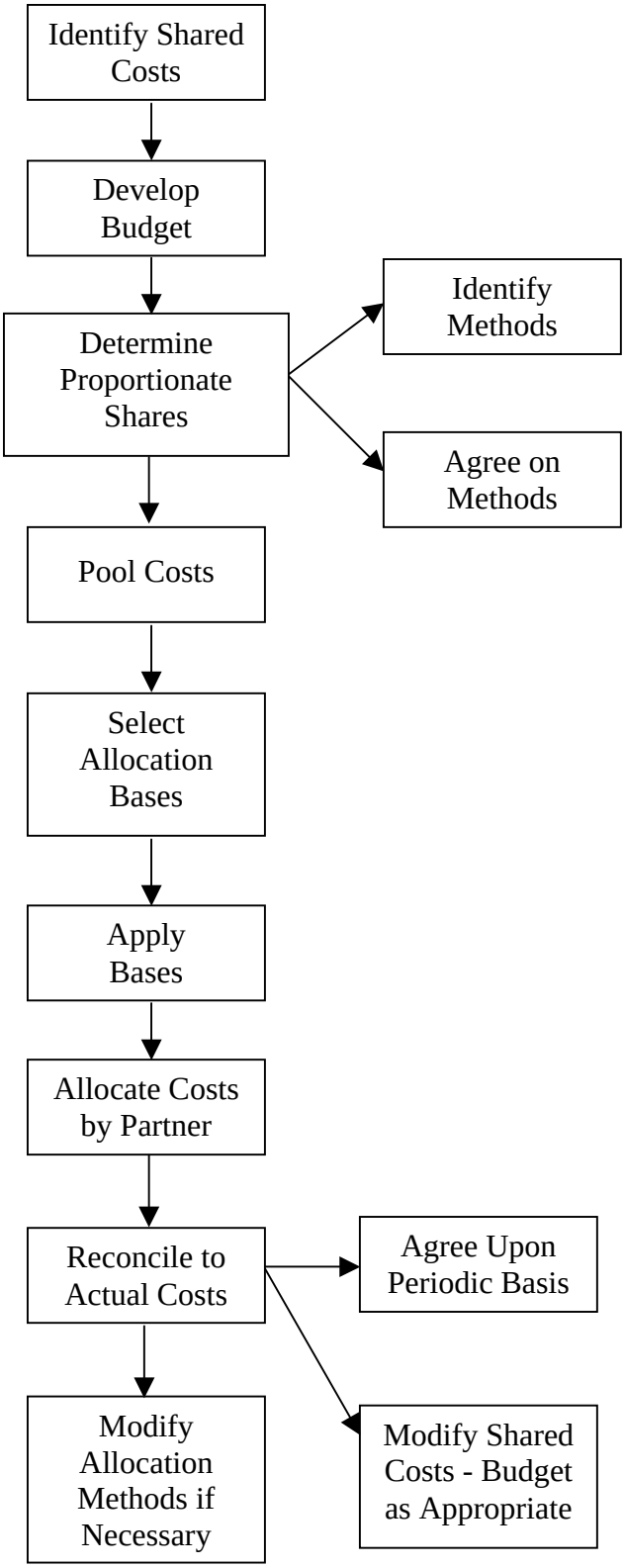
Example: One of the shared costs of the One-Stop center is associated with availability of program information and One-Stop services within the resource center. Agency Y claims that this cost does not benefit it because it is not located at the center. The participating partners would pay only for the costs associated with providing information related to their shared services or specific services within the One-Stop. Agency Y would need to pay to display any program information in the resource center related to its services as a direct cost to its program.

If the partner refuses to participate in a shared cost, then it is responsible for providing the service or activity within its specific program. Often, the remaining partners can demonstrate the benefit to shared programs in terms of reduced individual program costs, and this demonstration of benefit may be useful in subsequent negotiations on the inclusion of such costs in a shared costs budget.

Example: Partners within a One-Stop center have agreed to fund a common intake and eligibility determination process. They have identified the common data elements and designed a common intake form, and staff from the various partners are trained in the eligibility requirements of all participating partner programs. One partner refuses to participate, stating that it must control the collection of data to assure validity, even though the information collected on the common intake form is critical to determining eligibility for its program. The non-participating partner must conduct its own independent intake and incur all the costs of collecting the information for its program although this is a duplication of effort, resulting in increased program costs.

Attachment I-3-1 to this chapter is a schematic display of the steps followed in the process of determining proportionate share and cost allocation. Attachments I-3-2 through I-3-5 provide examples of cost allocation spreadsheets and sample cost allocation methodologies that might be used by partner programs to determine how shared costs should be allocated. Each sample spreadsheet is preceded by a description of the chart, its possible uses, and how the chart would be completed.

Steps in the Cost Allocation Process



Shared Costs by Partner

The chart displays the results of allocating the aggregate shared costs of the One-Stop using a single allocation base. In this sample cost allocation, the shared costs are allocated using the estimated hourly cost of operation for each cost item. The estimated hourly operating rate is determined by dividing the total shared costs by the months of operation and the average number of hours per month.

The partner's share of the costs is then determined by multiplying the estimated hourly operating rate by the total number of hours the partner participates as compared to the total hours of participation by all partners.

The actual calculations and the supporting information are listed on the sample chart. The following legend refers to the calculations in the sample chart:

(A)	Estimated hourly operating rate
(B)	Shared costs budget
(C)	Months of operation
(D)	12 month average of hours per month
(E)-(L)	Partner average number of hours
(M)	Partner share of costs.

Shared Costs by Partner

	Shared Budget (B)	Est Hourly Operating Rate (A)	Partner 1	Partner 2	Partner 3	Partner 4	Partner 5	Partner 6	Partner 7	Partner 8
Total monthly estimated hours of operation, (E) through (L)			216 (E)	216 (F)	150 (G)	160 (H)	60 (I)	20 (J)	110 (K)	110 (L)
COSTS & EXPENSES										
FACILITY COSTS										
Rent	120,000	46.30	(M)	(M)	(M)	(M)	(M)	(M)	(M)	(M)
Utilities (included in the rent amount)										
Repairs and other										
Maintenance contracts	2,000	0.77								
Security	12,000	4.63								
Property tax										
Furniture and fixture (desks, chairs, cabinets, etc.)	20,000	7.72								
Computer hardware, data line, software, phone)	40,000	15.43								
Telephone	22,000	8.49								
Pagers	400	0.15								
OPERATIONS										
General supplies (office, water, alarm, janitorial supplies)	24,000	9.26								
Freight & messenger	2,000	0.77								
	1,000	0.39								
	80	0.03								
Printing (outreach, community awareness, common signage)	3,000	1.16								
Other outside services	1,000	0.39								
Recruiting, marketing (outreach, community awareness)	16,000	6.17								
Staff/partner training (Baldrige Principles, CQI)	20,000	7.72								
		……	……	……..	……..	……..	……..	……..	……..	……

NOTES:			
	Months of operation	12	(C)
	Average number of workdays per month	24	
	Business hours per day (Mon - Fri 8am - 6pm)	10	200
	Business hours per day (Sat 8am - 12pm)	4	16
	12 month average number of hours per month	216	(D)

Estimated hourly operating rate = {Total shared costs/Months of operation}/average number of hours per month, or (A) = {(B)/(C)}/(D)

Partner's share = Estimated hourly operating rates × Partner's hours, or (M) = (A) × (E), (M) = (A) × (F), etc.

Attachment I-3-3

Cost Allocation by Item of Cost

This chart displays the allocation of an item of cost or cost pool, in this example the Facilities Pool, using a single allocation base. In this example, the Facilities Pool has been allocated to the partner organizations based on workstation usage. The shared costs of the Facilities Pool are divided by the amount of square feet of the facility, resulting in a cost per square foot. The cost per workstation is determined by the number of square feet occupied by the workstation multiplied by the cost per square foot. This is the direct cost to the partner that occupies the space. The number of workstations occupied by a partner, compared to the total number of workstations, is then used to determine the partner share of common space.

In this example, the chart displays the results of a single pool of costs as distributed to all partners. A separate worksheet would be completed for each cost pool at the One-Stop.

Attachment I-3-3

Cost Allocation by Item of Cost

Pool Type: Facility
Cost Included in Pool

Per square foot charge includes rent, utilities, janitorial, security	$4.00
Monthly cost per workstation	$933.33
Yearly cost per workstation	$11,200.00
Total shared facilities costs	$168,000.00

Allocation Base: Occupancy, Funding Streams, & Partner Agency	**Share of Costs ($)**	**Stations**	**Percent (%)**
Unemployment Compensation—Employment Service	16,800.00	1.5	10
Wagner-Peyser—Employment Service	33,600.00	3.0	20
Trade Act/NAFTA	5,600.00	0.5	3
Veterans' Employment Program	2,240.00	0.2	1
WIA Adult and Dislocated Workers	44,800.00	4.0	27
WIA Youth Programs	11,200.00	1.0	7
Welfare-to-Work	22,400.00	2.0	13
Adult Education & Literacy	2,240.00	0.2	1
Rehabilitation Act	4,480.00	0.4	3
Carl Perkins Act	3,360.00	0.3	2
Older Americans Employment Program	5,600.00	0.5	3
HUD Employment & Training	11,200.00	1.0	7
WIA Title ID: INA	4,480.00	0.4	3
TOTAL	168,000.00	15.0	100

Total square footage: 5,000
Square footage per workstation = 100
Direct charged # of workspaces = 15
Common area square footage = 3,500
Cost per square foot = $4.00

Attachment I-3-4

Sample Allocation Table

This allocation table displays the shared costs of a One-Stop center and the results of application of different bases to the costs in the remaining columns. This table would be completed for each partner participating in the shared costs. This chart is a summary chart of the allocations for each partner.

Instructions

List the shared costs and the total dollar amount for each cost item in the first column.

List the percentage (%) and resulting dollar share attributable to the partner under the appropriate methodology in one of the following five columns.

Attachment I-3-4

Sample Allocation Table

Partner Name: _____

Check and/or complete the appropriate box. Include the specific percentage or dollar amount as appropriate.

Cost Item & Amount	Allocation Methodologies				
	Direct Charge	Space %	Position %	Estimated Usage	Other Method (Specify)
Rent =					
Resource room					
Supplies					
Software					
Hardware					
Printed materials					
Other					
Telephone					
Data lines					
IT maintenance					
Shared equipment					
Equipment maintenance					
Common staff (position)					
Other (specify)					

Attachment I-3-5

One-Stop Center
Shared Costs by Program

This table is used to display the shared costs by cost item that are allocated to each required partner program. All required partner programs are listed as column headings. Not all of the partner programs may be present at each One-Stop center, and the form should be modified as necessary to fit local circumstances and program design.

One-Stop Center
Shared Costs by Program

Center Name:

Required Partners Costs	WIA-Adult & Dis. Wkr	WIA – Youth	Welfare to Work	Adult Ed & Literacy	Perkins Post-Sec Activities	Wagner Peyser	WIA – Veterans	Trade Act NAFTA	UI	CSBG	HUD E&T	Older American	Title 38 VETS	Rehab Svcs	Native American	Job Corps	Migrant/ Seasonal Fmwkr
Contact:	(name)																
Facilities Pool																	
Operations Pool																	
TOTAL COSTS																	

Chapter I-4

Resource Sharing

INTRODUCTION

This chapter discusses the fourth step in the process: resource sharing, or how the shared costs of the One-Stop center or system will be paid. It includes a discussion of the distinction between cost allocation and resource sharing, resource sharing methodologies, resolution of payment issues, reconciliation of actual resources used to project or estimate resources, and the link to cost allocation. It also provides sample resource sharing methodologies and formats used to display the resources. It contains the following sections:

- Cost Allocation and Resource Sharing
- Resource Sharing Methodologies
- Reconciliation and Adjustment Processes
- Attachment I-4-1—Resource Sharing Process Flow
- Attachment I-4-2—Sample Resource Sharing Format
- Attachment I-4-3—Sample Monthly Resource Sharing Format.

COST ALLOCATION AND RESOURCE SHARING

As discussed in the previous chapter, the process of cost allocation is used to determine the total shared costs attributable to each of the partner organizations. Resource sharing is defined as the process that will be used to pay for those costs or the funding of shared costs. Resources may be in the form of cash transfers, provision of goods and services that benefit multiple partners, or, when permitted by the program's authorizing legislation, through the provision of third-party in-kind contributions. The use of full-time equivalents (FTEs) in lieu of salary and benefit costs for shared staff functions may also be used as resources. Each of these types of resources will be discussed further in this chapter.

Resource sharing in One-Stop operations is a concept that allows partner agencies to fund shared costs through mechanisms in addition to cash transfers. This concept of resource sharing has been authorized as One-Stop financial policy in the *Federal Register* notice dated May 31, 2001. This concept is applicable within the One-Stop environment as well, provided that its use is consistent with the partner programs' governing statutes and regulations and is agreed to in the MOU.

Application of this concept allows the partner organizations to decide how they will pay for each partner's allocable share of the total common costs of the One-Stop. Once each

partner's proportionate share has been determined through the cost allocation process discussed in the previous chapter, the partners may then negotiate the payment methods. For example, one partner may pay for 100 percent of the equipment, another partner pays 100 percent of the rent, and a third partner pays 100 percent of supplies, etc.

> **Example:** A One-Stop customer is eligible to receive services under both the WIA Title IB Dislocated Worker program and the Veterans' Employment and Training program. Under this scenario, the grantees may choose which program is to pay for services, as the customer is equally eligible under both programs. For example, the WIA Title IB Dislocated Worker program may pay for the costs of case management and job development, and the Veterans' program might pay for the costs of training. The grantee decisions and payment agreements are to be reflected in the MOU.

The resources that are used to pay for the shared costs must also meet the following standards. Partner organizations are cautioned to carefully review their resource sharing methodologies to ensure compliance.

- Each partner must pay an amount equal to its allocable share of the costs,
- No partner may pay for a cost that does not benefit its program as determined in the cost allocation process,
- No program may pay for a cost that is unallowable under its governing statutes and regulations, and
- Costs may not be allocated if they benefit only one program or if the costs of the activity serve a single program purpose.

RESOURCE SHARING METHODOLOGIES

There are a number of methods that may be used to fund the shared costs of the One-Stop center or system. These are cash payments, provision of goods and services, use of FTE staff positions, and third-party in-kind contributions. Each of these methods is discussed below. The final payment or resource sharing methodologies agreed to by the partners in the One-Stop may include any, all, or any combination of methodologies. The availability of resources and their use in funding One-Stop operations is a local decision that must be made and agreed to by the partners and based on local program needs. The resources provided by each partner must be identified in the RSA and be in support of the shared costs of the One-Stop.

Cash Payments

Under this methodology, one entity is responsible for incurring and paying for all the shared costs when payment for these costs is due. The partners determine which of them will have this responsibility, whether on a permanent or, possibly, a rotating basis. This entity would then become the "managing partner" for purposes of shared costs financial activity. This same entity is also responsible for maintaining the documentation for the shared costs and notifying partners of their share of the costs as they are incurred. This may be done on a monthly or

quarterly basis as determined by the partners. The entity incurring the costs would issue an invoice on this predetermined basis to each participating partner. The partners would then pay the invoice as they would any cost. Documentation to support the cost would be the invoice and the supporting shared costs budget, cost allocation plan, and the actual costs as they are incurred. Using this methodology, the entity incurring the costs would be responsible for maintaining all supporting documentation and reconciling the actual costs to the budget. It would also provide each partner with the reconciliation information.

> **Example:** In the local One-Stop center, the partners have agreed that the Job Service will be the managing partner for all funding issues. The partners have agreed upon the shared costs, prepared a shared costs budget with appropriate function and benefit statements, and agreed upon the cost allocation methodologies to be used to determine each partner's proportionate share. The Job Service fiscal staff prepares a monthly invoice based on the actual costs incurred against the shared costs budget, allocates these costs using the agreed-upon methodologies, and bills each partner for its fair share. The partners may issue warrants, checks, or electronic transfers to pay the invoices. The managing partner then reconciles the payments and provides each partner with updated budget and cost information.

Full-Time Equivalents

When the costs of staff functions for common services such as intake and eligibility determination, staffing the resource center, or core services such as case management or job development are included in the shared costs budget, it may be more equitable to pay for these costs through the use of FTEs. Staff of the One-Stop may include State or local governmental employees, employees of nonprofit organizations, for-profit commercial entities, and educational institutions. Each of these entities will have different pay scales, pay levels, and fringe benefit costs. By using FTEs as a payment method, partner organizations need not address these differing pay scales or any privacy concerns.

In order to use FTEs as a payment method, all of the partner programs benefiting from the shared function must provide the necessary staff resources in the same proportion as their allocable share. It is also appropriate to use FTEs only for payment of common staff functions. Partners may not use FTEs as payment for non-staff costs such as facilities. Using this methodology, the partners would determine the total number of staff hours necessary to fully staff the function. The hours would be allocated using an agreed upon allocation methodology, with a resulting number of hours attributable to each participating partner. The partners then provide the staff as needed in relation to their allocable share of the total hours. When the partners have agreed to use FTEs as a payment function, then the results of the cost allocation and resources to be provided are the same. For example, if a partner's share of the One-Stop Center receptionist is 15 hours per week based on the allocation process, then the partner's resource is 15 hours per week.

Cautions:

- If FTEs are used as a payment method, then all benefiting partners must provide the staff resources. This means that the staff functions must be calculated and allocated separately from other shared costs of the One-Stop.
- Again, the use of FTEs as a payment mechanism is appropriate only for staff functions. If a partner organization provides staff services as payment for non-staff costs, then it is the costs of that staff function used as the resource, not the hours worked by the staff (FTE).
- Partner organizations are responsible for providing the staff resources. They should agree as part of the resource sharing methodology on how the staff will be scheduled. Each partner would document the total of the staff hours worked for each shared function as part of the reconciliation process.
- Partners should also agree on how the staff functions will be covered in the event of leave. This includes all types of leave such as sick, vacation, emergency, and long-term. For example, if a staff person uses sick leave, then that person's agency must either cover the time with another staff person or repay the agency that provided coverage. This process should also be addressed in the RSA.
- When FTEs are used as a payment mechanism, the agency providing the resource remains responsible for all personnel functions for its staff. The ancillary costs of staff benefits, leave systems, etc., are not a factor.

Example: The One-Stop operator and partners have agreed that the costs for staffing the resource center and the One-Stop receptionist are to be shared. Taking into account the hours that the One-Stop center is open, they have determined the total number of hours for the staff functions. The hours are allocated to each partner using an allocation base of participants served by each program compared to total served. The partners further agree on the scheduling of hours for each partner and the coverage to be provided in the event of emergency or sick leave. Each partner is responsible for tracking the staff resources and providing this information on a quarterly basis to all partners. If adjustments were needed in the subsequent quarter based on participant counts, the schedule could then be adjusted accordingly.

Example: The partners within the One-Stop have developed a common eligibility determination system. The partners have further agreed that the staff costs associated with this function will be a shared cost and that all partners will provide staff to perform the function, using FTEs to determine the proportionate share and necessary resources. They have determined an estimated number of hours for the function and agreed to allocate these hours to each participating partner on the basis of the number of participants eligible for each of the partner programs compared to the total participants for whom eligibility is determined. The partners further agree on the scheduling of hours for each partner and the coverage to be provided in the event of emergency or sick leave. Each partner is responsible for tracking the staff resources and providing this information on a quarterly basis to all partners. As this is an output-based allocation methodology,

the initial estimates of time would need to be adjusted in subsequent quarters based on the number of eligible participants.

Goods and Services

Payment of shared costs through the provision of goods and services by each of the partner programs will likely be the most common method of payment. Using this payment method, the partners prepare the shared costs budget and allocate the costs using agreed-upon allocation methodologies, with a resulting total shared costs attributable to each partner. Within the budget, the partners agree on how those costs will be funded. One partner may pay all the facilities costs, including rent, utilities, and maintenance, while another partner provides the telephone system to be used by all the partners, and a third partner provides additional core services such as eligibility determination for all participating partner programs. This flexibility in payment allows the partners to determine which payment method works best for their particular agency and takes into consideration the available resources of each program.

Cautions:

- The resources provided to support the shared costs must equal the total proportionate share of the partner. If, during the reconciliation process, the partners determine that one or more partners either over-fund or under-fund their proportionate share, then the share must be "made whole" through cash payments. For example, if Partner 1 pays 100 percent of the telephone system and this cost is less than its fair share of the total shared costs, then it must pay an additional amount to the partner who incurred a cost in excess of its fair share (for example, Partner 2 paid 100 percent of the rent and this cost is in excess of its fair share).
- Using this methodology, the goods and services must be in the form of costs to the partner agency. Each partner is then responsible for maintaining documentation of the actual cost of the goods or services and providing this information to all partners as part of the reconciliation and adjustment process.
- If a partner provides equipment as its share (or part of its share) of the resources, then the partner acquiring the property is responsible for adhering to the prior approval requirements of the applicable OMB circulars.

Example: The chart on the following page shows how the resources needed to support shared costs might be displayed.

Proportionate Share of Costs	Partner 1	Partner 2	Partner 3
Contributions:			
Partner 1	**$32,000**		
Copier	$15,000		
Supplies	$8,000		
Cash to Partner 3	$9,000		
Partner 2		**$50,000**	
Telephones		$20,000	
Computer terminals		$22,000	
IT maintenance		$8,000	
Partner 3			**$108,000**
Rent			$60,000
Utilities			$14,000
Furniture			$17,000
Software			$26,000
Cash from Partner 1			($9,000)

In-Kind Contributions

Under certain circumstances, partners may provide third-party in-kind contributions as resources to pay for their fair share of the costs. In-kind contributions are discussed in the cost sharing or matching provisions of the Uniform Administrative Requirements codified at 29 CFR 97.24 and 95.23 and are defined as donations of goods, services, or volunteer time from a third party. They are not a cost to the receiving organization. They may be used only as resources to pay for the partner agency's share of costs if their use is not prohibited by the agency's governing statute or regulations. Some programs participating in the One-Stop, such as the Temporary Assistance to Needy Families (TANF) program, do not allow the use of third-party in-kind. The partner agency proposing to use in-kind contributions must determine the allowability of in-kind use. If allowable, the in-kind is then valued in accordance with the requirements of 29 CFR 97.24 or 95.23. These regulations address donations of time (volunteers) as well as goods (equipment and supplies). It is important to note that the value of goods is usually based on the fair market value of the item at the time it is used. Donations of goods that are used as resources must be treated by the partner that provides them in the same manner as purchased goods. They are subject to the requirements for property management found in 29 CFR Parts 95 and 97. Further guidance on the treatment of goods (i.e., equipment and supplies) is found in Chapter II-11, *Property Management*. It is the determined value of the contribution that would serve as the resource for payment of shared costs.

Example: A small nonprofit organization serves as a partner in the local One-Stop center. Its proportionate share of the costs is $15,000. The nonprofit does not have sufficient cash or other resources to fully fund its share, and it wishes to provide (not for its own individual use) computers donated by a local business to the nonprofit as resources. The computers are valued (in accordance with the requirements of 29 CFR 95.23(c)(1) or (2)) at $8,000. The nonprofit would be able to use the $8,000 value as part of the resources it will provide to fund the shared costs.

Example: An entity wishes to use a van used to provide client transportation to job interviews and other off-site services as a resource for funding its allocated share of common One-Stop costs. The van was donated to the entity by a local car dealership. The value of the van (as determined by application of the requirements of 29 CFR 95.23 or 97.24) could be used by the entity as a resource to fund a portion of their shared costs.

Example: A nonprofit organization provides assistance with resume preparation. These services will be provided in the resource center and are in addition to the core services the organization otherwise provides in the One-Stop. The resume preparation assistance is provided by human resource professionals who donate their time to the nonprofit. The amount of the resources is valued in accordance with the requirements of 29 CFR 95.23(d) and may be used by the organization as resources to fund its share of common costs.

In each of the above examples, the value of the in-kind contribution would be determined at the time it is provided.

Program Income

While technically not a resource sharing methodology, program income earned at the One-Stop center as a result of shared activities or shared costs is attributable to all partners. Program income is governed by the Uniform Administrative Requirements that are codified for ETA-funded programs at 29 CFR 97.25 and 95.24. Partner organizations are governed by the program income requirements of their funding source. If program income is earned at the One-Stop through a shared cost, then that income must be distributed to all partner organizations. The program income should be allocated in the same proportion as the shared costs. Program income must be expended on allowable grant activities. The earning, allocation, and use of program income should be addressed in the RSA. Partners may agree to use program income to reduce their share of costs or resources needed to fund the costs if that is allowable under the partners' authorizing statutes and regulations. WIA grantees and subgrantees are reminded that they must use the addition method in expending program income. The requirements for program income are more fully described in Chapter II-7, *Program Income*.

Example: A local employer conducts preliminary interviews and screenings of potential employees at the One-Stop center. The local employer uses a classroom that is part of the resource center and pays a room rental charge to the One-Stop operator. The One-Stop operator,

as one of the partners, is responsible for providing the information on the program income to partners, and that program income would be distributed to all partners that share in the costs of the resource center.

Non-Partner Funding

As was discussed in Chapter I-1, *Identification of Shared Costs*, the State may make funding available under Section 134(a)(2)(B) of the WIA. Should the State make such funds available, they are used to reduce the amount of shared costs that are allocated to each partner, thereby reducing the resources each partner must provide. As with program income, this is not technically a resource sharing methodology. With this funding mechanism, the total shared costs to be allocated to partners are reduced by the costs of activities to be funded from Statewide Activities funds. The remaining shared costs are then funded by partner agencies using the resource sharing methodologies previously discussed in this chapter. This use of these funds should also be addressed in the Resource Sharing Agreement.

> **Example:** The State has made funds available to an LWIA to pay for the costs of specialized software for use in the resource room. These costs had initially been identified as shared costs by the partner agencies. In developing the cost allocation and resource sharing methodologies, the total shared costs are reduced by the amount of funding received from the State for One-Stop activities, reducing the resources needed by each partner to fund their share of the costs.

RECONCILIATION AND ADJUSTMENT PROCESSES

As the cost allocation and resource sharing processes are based on the actual costs incurred by partner agencies, they must include provisions for the reconciliation of actual costs paid by the partner agencies. The resource sharing provisions may then need to be adjusted based on actual costs.

The reconciliation and adjustment process will require the provision of actual financial information by partner agencies, and this data must be provided to all partners on a timely basis. Any issues related to privacy considerations must be resolved before the cost allocation and resource sharing process is completed.

At a minimum, this reconciliation and adjustment process should be conducted on a quarterly basis to coincide with the Federal financial reporting requirements. It is best to reconcile both the cost allocation process and the resultant adjustments to resource sharing at the same time.

> **Example:** As part of the resources used to pay for its share of the One-Stop costs, Partner 1 is responsible for procuring and paying for software site licenses for common case management software. At the time of developing the cost allocation, the agency is to procure 15 site licenses at a cost of $1,500 per license. During the next quarter, an additional five staff needed the software, thus

increasing the costs by $7,500. This cost increase would need to be distributed to all benefiting partners during the reconciliation process and would necessitate each partner providing additional resources.

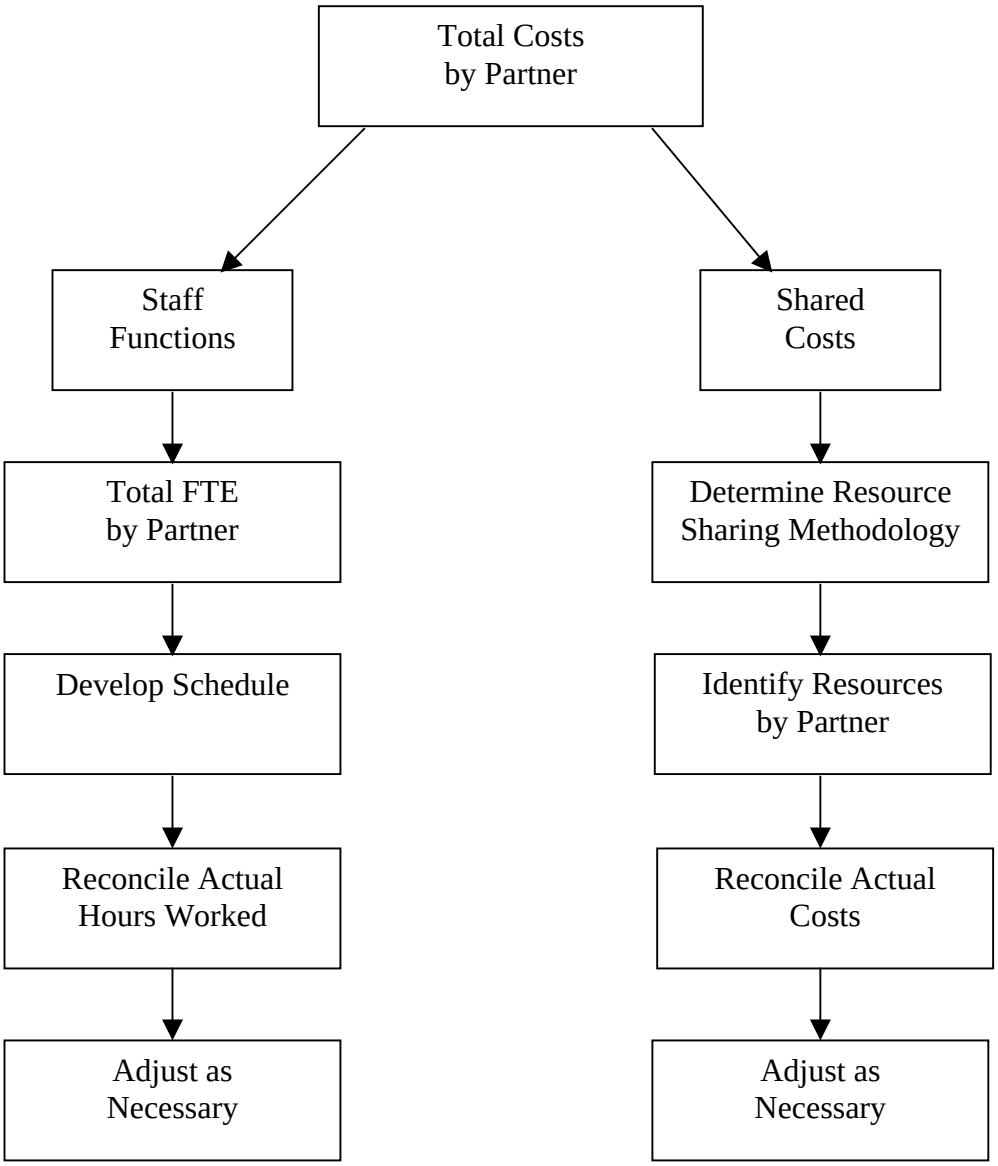
ATTACHMENTS

There are three attachments to this chapter:

- Attachment I-4-1 is a schematic showing the steps in the resource sharing process.
- Attachments I-4-2 and I-4-3 are sample resource sharing formats.

Attachment I-4-1

Resource Sharing Process Flow



Attachment I-4-2

Sample Resource Sharing Format

This chart is used to display the resources provided by each partner to fund its share of the costs. In this sample chart, the costs are displayed in the format contained in the shared costs budget. The total shared costs are contained in the Costs column. The total shared costs attributable to each partner are displayed in the first row under each partner. The resources to be provided by each partner are displayed in the Partner column against the appropriate shared cost item.

Attachment I-4-2

Sample Resource Sharing Format

Cost Item	Costs	Partner 1	Partner 2	Partner 3
Total Costs	**$268,000**	**$107,720**	**$80,140**	**$80,140**
Shared Services Staff	**$187,000**			
Staff salaries	150,000	30,000	60,000	60,000
Fringe benefits for staff	35,000	7,000	14,000	14,000
Staff travel	2,000		500	1500
Facilities	**$81,000**			
Rent	60,000	60,000		
Utilities	12,000	12,000		
Security	6,000		6,000	
Maintenance	3,000			3,000
Communications	**Etc.**	**Etc.**	**Etc.**	**Etc.**
Base telephone				
Long distance				
T-1 lines				
Etc. for All Shared Costs				
Payments to/(from) Partners		(1,280)	(360)	1,640

Attachment I-4-3

Sample Monthly Resource Sharing Format

The sample format on the following page may be used to display the resources to be provided by partners on a monthly basis. The shared costs are listed in the first column. The total costs, year-to-date costs, and monthly costs are also listed on the spreadsheet. Each partner's total share of the monthly costs is provided in the first row in each Partner column. The resources provided by the partner are then listed in the column against the appropriate budget item. This spreadsheet may also be used to reconcile both actual and proposed costs on a monthly basis.

Attachment I-4-3

Sample Monthly Resource Sharing Format

Shared Costs										
Month of August	Shared Budget			Partner 1	Partner 2	Partner 3	Partner 4	Partner 5	Partner 6	Partner 7
			Costs	(D)	(D)	(D)	(D)	(D)	(D)	(D)
COSTS AND EXPENSES										
FACILITY COSTS	(A)	(B)	(C)	(E)	(E)	(E)	(E)	(E)	(E)	(E)
Rent	$120,000									
Utilities (included in the rent amount)										
Repairs and other										
Maintenance contracts	2,000									
Security	12,000									
Property tax										
Furniture and fixture (desks, chairs, cabinets, etc.)	20,000									
Computer hardware, data line, software, phone	40,000									
Telephone	22,000									
Pagers	400									
OPERATIONS										
General supplies (office, water, alarm, janitorial supplies)	24,000									
Freight and messenger	2,000									
Printing (outreach, community awareness, common signage)	3,000									
Other outside services	1,000									
Recruiting/marketing (outreach, community awareness)	16,000									
Staff/partner training	20,000									
NOTES:										
(A) Total costs										
(B) Year-to-date costs										
(C) Current month cost										
(D) Total monthly shared costs by partner										
(E) Resources provided by partner (against appropriate item)										

Chapter I-5

Resource Sharing Agreements

INTRODUCTION

This chapter discusses the last step in the process of cost allocation and resource sharing in the One-Stop: developing the Resource Sharing Agreement (RSA). It includes a discussion of the necessity for an RSA, the structure and content of the RSAs, and modification or adjustment processes. It also provides a discussion of the links between the Memorandum of Understanding (MOU) and the RSA. It contains the following sections:

- Resource Sharing Agreements
- RSA Structure and Content
- Additional Considerations
- Links to the MOU.

RESOURCE SHARING AGREEMENTS

The RSA may be defined as the plan and supporting documentation for the processes used by the One-Stop operator and partners to define, allocate, and fund the shared costs of the One-Stop. While there are no statutory or regulatory requirements specifically for the RSA, both the statute and the regulations require the MOU to address how the costs of the One-Stop system will be shared and how those costs will be paid by each of the partners. As the cost allocation and resource sharing processes require the adjustment of projected costs and resources based on actual costs incurred, the RSA is a document that may be adjusted or modified to actual costs without the need to formally modify the MOU. The RSA should contain all the financial data and documentation to support the funding arrangements that must be addressed in the MOU. If the LWIB does not require the completion of an RSA for the local One-Stop(s) shared costs, then it may be necessary for the MOU to contain financial information and supporting documentation related to how costs of services and operating costs of the system will be funded, in addition to the remaining requirements specified by the WIA at Section 121(c), which may make the MOU more difficult to revise and use as a working document.

RSA STRUCTURE AND CONTENT

The structure used by LWIBs, operators, and partners to collect the funding information will vary. Again, the design and flow of services, the number of required and non-required partners participating in the One-Stop(s), and the degree of program integration and shared costs

will determine the type of information needed in the RSA. At a minimum, however, the following elements should be included:

- **List of all partners.** The RSA should contain a list of all the partner programs participating in the shared costs of the One-Stop. Partners should be identified by name and funding stream. For example, a State employment security agency that has the responsibility for the Wagner-Peyser, Unemployment Compensation, and Veterans' Employment programs is one entity but three partner programs. The name and telephone number of a contact person for each partner should also be included.

- **List of all shared costs.** Each shared cost should be defined. For example, a shared cost might be *subscriptions*, which includes magazines, periodicals, and newspapers. Each shared cost should also have a function and benefit statement that describes how the shared cost is of benefit to multiple partners. This process is discussed in detail in Chapter I-1, *Identification of Shared Costs*.

- **Shared costs budget**. The RSA should also include a formal budget document that includes all the shared costs of the One-Stop with appropriate dollar values. The budget should include all the costs included in the list of all shared costs. The shared costs budget is discussed in detail in Chapter I-2, *Shared Costs Budgets*.

- **Cost allocation plan.** The plan should include a description of the cost pools used to accumulate the shared costs, the allocation methodologies that will be used to distribute the costs to each partner, a description of the data resources needed to perform the allocations, and a spreadsheet that displays the allocation process. The cost allocation plan may be included as a part of the RSA or as an attachment to the RSA. Whichever method is used, the information in the cost allocation plan is the same. The cost allocation plan is also discussed in more detail in Chapter I-3, *Proportionate Share and Cost Allocation*.

- **Shared costs (by partner).** The application of the allocation methodologies to the pools of shared costs will result in a dollar value attributable to each partner participating in the cost. This information may be included in the spreadsheet discussed in the cost allocation plan. The concept of proportionate share is also discussed in Chapter I-3, *Proportionate Share and Cost Allocation*.

- **Resources.** Resources are the goods and/or services provided by each partner to pay for its fair share of the costs. This section should detail the payment methodologies used by each partner to fully fund its proportionate share. It may also be displayed in spreadsheet format. The resources provided by each partner must match the partner's allocated share of the costs. The information may also be displayed in summary form for all partners. Resource sharing is discussed in more detail in Chapter I-4, *Resource Sharing*.

- **Reconciliation and modification.** Reconciliation and modification is a description of the process used by partners to reconcile the proposed budget costs to the actual costs incurred by the partners in providing resources. The description of the reconciliation process must include the types of cost information to be provided by each partner, as well as time frames

for reconciliation and adjustment. The process should also describe the circumstances for modification of the agreement and address how disputes will be handled by the partners.

ADDITIONAL CONSIDERATIONS

The RSA contains financial commitments by each of the partners in the form of the resources to be used in support of the shared costs. Local areas and their partner agencies should decide if these financial commitments require the separate signature of authorized agency officials or whether referencing the RSA in the MOU will satisfy legal requirements for commitment of funds.

The RSA (including the cost allocation plan) should be provided to each partner agency's independent auditors. The cost allocation methodologies that are used must be accepted by each partner's independent auditors in order to satisfy the audit testing required under the Single Audit Act and OMB Circular A-133. In addition, it is expected that Federal agency auditors will utilize these agreements as additional criteria for audit and resolution purposes. All partners sharing costs will be responsible for resolving any audit issues related to the shared costs.

As discussed in previous chapters, the cost allocation and resource sharing processes will require partner agencies to provide actual cost data. Any privacy and data integrity considerations should be resolved before the RSA is finalized, and information on how these issues are addressed included in the RSA.

The RSA must contain provisions for the reconciliation and adjustments of actual shared costs and resources to the budget and planned resources. Budget adjustments would not necessarily require a modification to the MOU, provided the adjustments do not materially affect the terms of the MOU. However, the RSA should indicate the circumstances under which the MOU must also be modified. These circumstances are discussed later in this chapter.

The RSA should also describe the process to be followed by the partners in the event of a dispute. Disputes may arise over the allocation methodologies to be used, the inclusion of costs in the shared costs budget, or for other reasons. This process would be used only for disputes related to information sharing, costs, or other requirements of the RSA and would differ from the dispute resolution process required by regulation for the MOU.

The RSA, containing or supported by budgets, cost allocations, and other documentation, represents the agreement on funding shared costs. Partners may wish to designate a partner fiscal officer as the "agreement manager." The designated fiscal officer would have the responsibility for gathering actual cost data from all partner agencies, preparing the reconciliations discussed throughout Part I, and providing updated information on adjustments to partner agencies. The costs of performing this function could be included as part of the shared costs of the One-Stop system, or the responsibility could be rotated among the partner agencies.

LINKS TO THE MOU

Section 121 of the WIA addresses the requirements for One-Stop delivery systems. Section 121(c) contains the requirements for the MOU and specifies that the MOU is an agreement between the local board and the One-Stop partners, with the agreement of the chief elected official (CEO). The agreement must address how services will be provided through the One-Stop delivery system, the methods for referral of customers between the One-Stop operator and partner agencies for services and activities, how the costs of services and One-Stop operations will be funded, the duration of the memorandum, and procedures for modification. The MOU may also contain locally developed provisions, consistent with the requirements of WIA, as agreed to by the local board and One-Stop partners.

As stated above, the MOU must contain information on funding. These financial requirements may be addressed through inclusion of a clause in the MOU that summarizes the financial commitments made by each partner and incorporates the RSA, with its attendant documentation, by reference. The MOU may also contain the specific financial information of the RSA, such as the shared costs budget, cost allocation plan, and resource sharing plan, as elements of the MOU.

The RSA is a fiscal document that provides the details necessary to allocate the shared costs and track the resources provided by each partner agency. By design, the RSA is a document that will change as the actual costs incurred by the partners become known. As the MOU is a formal agreement on the roles and responsibilities of partner programs, as well as the flow of program services to be provided within the One-Stop system, modification to the MOU requires signatures of authorized agency officials, the CEO, and the LWIB. **Caution:** If the contents of the RSA are included as specific elements of the MOU, changes in resources based on actual costs might require an amendment to the MOU.

The LWIB and partner agencies, with the agreement of the CEO, must decide which One-Stop model will work best, given local conditions. However, whichever model is chosen by the LWIB and One-Stop partners, changes to the MOU will be required if additional partners begin to share in the costs, partners choose not to participate in shared costs, there are any funding changes that will affect the services and activities to be offered through the One-Stop system, or there are changes in the One-Stop delivery system that require substantive changes to the cost information contained in the RSA.

> **Example:** The LWIB, in coordination with partner agencies, has incorporated the RSA into the MOU by reference. After six months, additional services are to be provided through co-location by a new partner agency. The additional operating costs associated with these services must be included in the RSA, and the cost allocation and resource sharing methodologies must be revised based on participation by an additional partner. As these changes affect both the terms of the MOU (services to be provided and referral mechanisms) as well as the funding arrangements addressed in the RSA, both documents would need to be modified accordingly.

Example: Again, the MOU includes the RSA by reference. On a quarterly basis, the actual costs are reconciled to the planned costs contained in the shared costs budget. The reconciliation indicates that one partner has underpaid its share through a cost reduction on equipment. The RSA would need to be modified to reflect the need for additional resources by that partner. However, as the adjustment does not involve funding changes, or changes in the services and activities provided through the One-Stop center, the MOU would not need to be modified.

If, in this example, an RSA is not used and the shared costs budget information is contained in the MOU, any changes to the budget may require a modification to the MOU. This may be administratively burdensome and time consuming to achieve.

Chapter I-6

Case Studies

INTRODUCTION

Part I of the One-Stop Comprehensive Financial Management TAG has been written to provide the One-Stop system, including operators, partners, and boards, with clarification of the requirements for funding the One-Stop operation. The previous five chapters have outlined these requirements as a series of logical processes and presented a variety of methods and techniques that might assist the system. This chapter is designed to provide readers with case studies relating to the concepts and processes previously discussed. Each of the case studies in this chapter applies the concepts discussed in the previous five chapters and provides sample data that may be useful in developing the local cost allocation and RSAs. The case studies begin with a set of assumptions for the One-Stop, include a shared costs budget, apply cost allocation methodologies, and provide the resources from each partner. The chapter contains the following sections:

- Case Study No. 1—Co-Located Services and Operating Costs
- Case Study No. 2—Common Staff Functions Using FTEs
- Case Study No. 3—Electronic Data Sharing Costs
- Case Study No. 4—Common Services and Associated Costs.

CASE STUDY NO. 1
Co-Located Services and Operating Costs

Assumptions

1. There are four partners.
2. All staff are employees of one or another of the partners. This includes center management and services staff such as the receptionist, resource librarian, intake staff, etc.
3. Each partner pays its own bills.
4. Each partner contracts with service providers and does its own purchasing/ procurement.
5. The facility is currently leased by one of the partners. Utility costs are paid separately.
6. Each partner will provide appropriate workspace furniture for staff; however, some new furniture will be purchased.
7. The new telephone system will be procured by one of the partners.

Shared Costs Budget

As each partner provides and pays for core services related to its program, the shared core services are outreach and intake, provision of information, and unassisted job search assistance. The partners agree that the shared costs to be pooled and allocated will be as follows:

Facilities Pool
- Rent, utilities, maintenance/janitorial

Equipment and Supplies Pool
- Common use computer terminals (4)
- Software costs for resource center
- Communications costs (includes telephones and data access costs)
- Copier
- Fax machine
- Tables and chairs for the resource center (3 tables and 9 chairs)
- Supplies (including intake forms, copier supplies, etc.)

Salaries and Benefits Pool
- Center manager (half time)
- Resource librarian
- Intake staff (3)
- Receptionist.

The following tables illustrate how these costs will be accumulated and pooled.

Facilities Pool

Rent	$20,000
Utilities	8,000
Maintenance/Janitorial	4,000
Total	**$32,000**

Equipment and Supplies Pool

Copier	$15,000
Computer terminals (all hardware costs) (4 @ $3,000 ea)	12,000
Software (all common use software)	8,000
Telephones and communications costs	5,000
Fax machine	1,000
Supplies	4,000
Furniture	5,000
Total	**$50,000**

Salaries and Benefits Pool

Center manager (half-time position @ $60,000)	$30,000
Receptionist	22,000
Resource librarian	28,000
Intake staff (3 positions @ $31,000)	93,000
Total	**$173,000**

Cost Allocation Methodology

The partners agree that the facilities pool will be distributed on the basis of square footage occupied by each partner as compared to all square footage occupied (5,000 square feet in the table below, which includes a proportionate share of common space). This results in the following allocation:

	Square Feet	Percent	Proportionate Share of Costs
Partner 1	1,600	32	$10,240
Partner 2	1,200	24	7,680
Partner 3	1,200	24	7,680
Partner 4	1,000	20	6,400
Total	5,000	100	$32,000

The partners agree to allocate the costs of the supplies and equipment pool on the basis of participants eligible for each program as compared to the total number of participants served (2,500 participants in the tables below). Each partner uses historical data to determine the planned number that will be served. These planned numbers must be reviewed and adjusted to actual participation in order to comply with cost allocation requirements. The results of these calculations are shown in the table below.

	Number of Participants	Percent of Total Participation	Proportionate Share of Costs
Partner 1	1,000	40	$20,000
Partner 2	600	24	12,000
Partner 3	500	20	10,000
Partner 4	400	16	8,000
Total	2,500	100	$50,000

The partners agree to use the same methodology to distribute the costs of the staff salary and benefit pool. This results in the following allocation:

	Number of Participants	Percent of Total Participation	Proportionate Share of Costs
Partner 1	1,000	40	$69,200
Partner 2	600	24	41,520
Partner 3	500	20	34,600
Partner 4	400	16	27,680
Total	2,500	100	$173,000

The results of the pool allocations are summarized in the following table:

	Facilities	Equip. & Supp.	Sal. & Benefits	Totals
Partner 1	$10,240	$20,000	$69,200	$99,440
Partner 2	7,680	12,000	41,520	61,200
Partner 3	7,680	10,000	34,600	52,280
Partner 4	6,400	8,000	27,680	42,080
Total	$32,000	$50,000	$173,000	$255,000

Resource Sharing

Using allowable resource sharing methodologies, the partners have funded their share of the common costs as follows:

Resource Sharing Agreement				
Proportionate Share of Costs	**Facilities**	**Supplies**	**Salaries**	**Total**
Partner 1	$10,240	$20,000	$69,200	$99,440
Partner 2	7,680	12,000	41,520	61,200
Partner 3	7,680	10,000	34,600	52,280
Partner 4	6,400	8,000	27,680	42,080
Total	$32,000	$50,000	$173,000	$255,000
Contributions				
Partner 1	**$99,440**			
Center manager	30,000			
Resource librarian	28,000			
Copier	15,000			
Intake staff	31,000			
Cash from Partners 2, 3 & 4	(4,560)			
Partner 2	**$61,200**			
Rent	20,000			
Utilities	8,000			
Telephones	5,000			
Receptionist	22,000			
Maintenance	4,000			
Cash to Partner 1	$2,200			
Partner 3	**$52,280**			
Intake staff (1)	31,000			
Computer terminals	12,000			
Supplies	4,000			
Furniture	5,000			
Cash to Partner 1	$280			
Partner 4	**$42,080**			
Intake staff	31,000			
Software	8,000			
Fax machine	1,000			
Cash to Partner 1	2,080			

As may be seen from the examples, the partners have used a variety of payment mechanisms to fund their proportionate share of the costs, including providing equipment, payment of rent, and cash transfers. This case study is intended to show how the cost of co-located services and operating costs of a One-Stop center might be defined, allocated, and paid for by each of the participating partners.

CASE STUDY NO. 2
Common Staff Functions Using FTEs

Assumptions

1. There are five partners.
2. The partners have agreed to share the costs of providing a One-Stop center receptionist, staff to assist customers in the resource center, common intake and eligibility staff, and common case management staff.
3. All staff are employees of one or another of the partners. Each partner is responsible for the personnel, salary and benefit payments, and leave policies related to its staff.
4. All partners will benefit from and participate in the shared costs related to the center receptionist and the staff of the resource center and for the common intake and eligibility staff.
5. All but one partner will benefit from and participate in the case management services. The remaining partner does not provide case management as a core service and will therefore not participate. The remaining four partners will fund all costs related to the function.
6. The partners have agreed to use FTEs as the basis for funding the staff functions.
7. The center is open ten hours per day (Monday through Friday) and each Saturday for five hours, for a total of 55 hours per week.
8. As this is a case study, holidays and other center closures have not been accounted for in the tables.

Shared Costs Budget

As the partners have agreed to use FTEs as the basis for funding the staff positions, the budget is based on the total hours needed to staff the functions as opposed to the dollar value of salaries and benefits. The following table shows how these staff services would be contained in the budget.

Staff Function	Number of Positions	Hours per Week	Hours per Year to Staff Function
Center receptionist	1	55	2860
Resource center staff	1.5	82.5	4,290
Case managers	8	440	22,880
Intake & eligibility determination staff	4	220	11,440
Total	14.5 FTE	797.5	41,470

Cost Allocation Methodology

As the partners will share in funding the costs of the center receptionist/resource center staff, the case managers, and the intake/eligibility determination staff in different ways, they have divided the FTE hours into three pools. The first pool contains the staff resources needed for the center receptionist and the resource center. The partners have agreed to allocate the hours based on an allocation methodology of equal access to services by customers is of equal benefit to all partners. The results of this methodology are displayed in the following table:

Function	Hours	Partner 1	Partner 2	Partner 3	Partner 4	Partner 5
Receptionist	2,860	572	572	572	572	572
Resource center	4,290	858	858	858	858	858

The second pool contains the FTE hours for the case managers. These hours will be allocated among the four benefiting partners, and the partners have agreed to use the estimated number of participants eligible for services for each program as compared to the total estimated number of participants. The results of this allocation methodology are shown below.

	Number of Participants	Percent of Total	Proportionate Share of FTE Hours
Partner 1	1,500	42.9	9,815
Partner 2	900	25.7	5,880
Partner 3	450	12.8	2,929
Partner 4	650	18.6	4,256
Total	**3,500**	**100**	**22,880**

The third pool contains the FTE hours for the intake and eligibility staff. The partners have developed a common intake and eligibility determination process and utilize a computerized format. The intake form has a total of 400 bytes of information. The form contains standard information such as name and address that accounts for 100 bytes, and these are attributable to all programs. The remaining 300 bytes of information are used in different amounts by the partner programs. The partners have analyzed the data required by the format and attributed the data bytes required to determine eligibility for each of the four partner programs. They have agreed to use the percent of bytes attributable to each program as compared to the total bytes for all programs as the cost allocation methodology. The results of the allocations are displayed in the following table:

	Data Bytes Used			Percent of Total	Proportionate Share of FTE
	Common	Other	Total		
Partner 1	100	90	190	19	2,174
Partner 2	100	120	220	22	2,516
Partner 3	100	180	280	28	3,203
Partner 4	100	70	170	17	1,945
Partner 5	100	40	140	14	1,602
Total			**1,000**	**100**	**11,440**

Resource Sharing

Each of the five partners benefiting from the first pool must provide the total number of staff hours for each of the positions indicated in the cost allocation table. The staff must be from comparable personnel classifications for each of the two types of positions that were allocated. Each of the four partners benefiting from the pooled costs for case managers must also provide the total number of staff hours indicated in the cost allocation table. However, as participant numbers will change over time, the partners must also agree on how the changes in participant counts will be handled in terms of scheduling and/or adjustments to the schedule. Finally, each of the five partners must provide the total number of staff hours for the common intake and eligibility determination staff as indicated in the cost allocation table. These requirements are summarized in the following table:

Function	Hours	Partner 1	Partner 2	Partner 3	Partner 4	Partner 5
Receptionist	2,860	572	572	572	572	572
Resource center	4,290	858	858	858	858	858
Case managers	22,880	9,815	5,880	2,929	4,256	N/A
Intake & eligibility	11,440	2,174	2,516	3,203	1,945	1,602

The RSA must contain the number of hours each partner will provide for each staff function. The partners must develop and include a schedule in the RSA. Provisions for leave taken by any of the partner staff must be described in detail. These provisions should address each type of leave such as emergency, sick leave, or vacation, and how the partners will either adjust schedules or reimburse their partners if the schedule is not adhered to because of unscheduled leave. Partners must track the hours worked by their staffs, and this information should be provided during the quarterly cost reconciliation process so that adjustments to the schedule may be made as necessary.

CASE STUDY NO. 3
Electronic Data Sharing Costs

Assumptions

1. Four partners are participating in sharing the costs of electronic data systems development, data collection, and use by both partner organizations and customers.
2. The system includes the network capabilities that link the partner programs, placement of 10 Internet-access-only electronic kiosks within the community and 10 terminals placed in the resource center, and a One-Stop Web site (and its maintenance) that provides a single point of entry to the electronic program services such as computer-assisted learning, links to specific partner programs or other community resources that are offered within the One-Stop, as well as the necessary hardware and software.
3. Web site development and maintenance will be procured through an outside contractor.
4. Each partner will be responsible for providing any program-specific links and the software to support them.
5. One or another of the partners will be responsible for maintaining the IT system.
6. Partners will provide resources to support the effort as described in the RSA.

Shared Costs Budget

The partners have agreed upon the types of needed hardware and software and the costs to develop, support, and maintain the system. The following table illustrates the shared costs and their dollar values as determined by the partners. **Note:** This table contains only some of the costs associated with electronic data sharing and is used to illustrate the concepts discussed earlier in this TAG.

Cost Item	Number	Value	Total costs
Computer terminals (complete)	20	$3,500 each	$70,000
Operating system site licenses	20	1,000 each	20,000
Printers	5	600 each	3,000
High-speed Internet access and service		500 per month	6,000
Network costs (servers, cables, etc.)		25,000	25,000
Web site development and maintenance		100,000	100,000
IT maintenance (system)	0.5 staff	80,000	40,000
Software licenses (resource center) (word processing, spreadsheets, etc.)	10	400 Avg.	4,000
Software licenses (resource center) (computer-assisted learning, resume preparation, etc.)	10	1,000 Avg.	10,000
Total			**$278,000**

Cost Allocation Methodology

The partners have agreed to pool all the shared costs into a single pool and use a single methodology to distribute the costs. Displayed below are three different methods the partners might use to distribute the costs.

Method 1: The access system for the Internet or use of the system by either staff or customers requires that each person who accesses the data system key an identification code. Total usage of the system may then be determined by taking the total hours accessed and linking the identification codes to specific partner programs. The results of this methodology are displayed in the following table:

Partner	System Use (%)	Cost
Partner 1	40	$111,200
Partner 2	30	83,400
Partner 3	20	55,600
Partner 4	10	27,800
Total	100	$278,000

Method 2: The partners have agreed that the costs should be allocated using the methodology of equal access to data by both partner organizations and potential customers that is of equal benefit to each of the programs. The results of this methodology are displayed in the following table:

Partner	Equal Benefit (%)	Cost
Partner 1	25	$69,500
Partner 2	25	69,500
Partner 3	25	69,500
Partner 4	25	69,500
Total	100	$278,000

Method 3: The partners will utilize a data recognition system that allows a tally of the inquiries ("hits") to a partner program Web page, links to a partner program, or information related to a partner program. The hits will then be totaled and the costs allocated on the basis of the hits for each partner as compared to the total hits to all partner program Web pages or links. The results of this methodology are displayed in the following table:

Partner	Hits	Percent	Cost
Partner 1	5,000	25	$69,500
Partner 2	8,500	42.5	118,150
Partner 3	3,000	15	41,700
Partner 4	3,500	17.5	48,650
Total	20,000	100	$278,000

Resource Sharing

Following are three ways in which the partners might choose to fund the costs. These funding methods correspond to the three cost allocation methods described in the previous section.

Method 1:

Cost	Partner 1	Partner 2	Partner 3	Partner 4
Computer terminals (complete)		$70,000		
Operating system site licenses				$20,000
Printers				3,000
High-speed Internet access and service	$6,000			
Network costs (servers, cables, etc.)			$25,000	
Web site development and maintenance	100,000			
IT maintenance (system)			40,000	
Software licenses (resource center) (word processing, spreadsheets, etc.)				4,000
Software licenses (resource center) (computer assisted learning, resume preparation, etc.)		10,000		
Cash to/(from) partners	5,200	3,400	(9,400)	800
Total	**$111,200**	**$83,400**	**55,600**	**$27,800**

Method 2:

Cost	Partner 1	Partner 2	Partner 3	Partner 4
Computer terminals (complete)	$70,000			
Operating system site licenses			$20,000	
Printers				$3,000
High-speed Internet access and service			6,000	
Network costs (servers, cables, etc.)				25,000
Web site development and maintenance		$100,000		
IT maintenance (system)			40,000	
Software licenses (resource center) (word processing, spreadsheets, etc.)				4,000
Software licenses (resource center) (computer assisted learning, resume preparation, etc.)				10,000
Cash to/(from) partners	(500)	(30,500)	3,500	27,500
Total	**$69,500**	**$69,500**	**$69,500**	**$69,500**

Method 3:

Cost	Partner 1	Partner 2	Partner 3	Partner 4
Computer terminals (complete)			$35,000	$35,000
Operating system site licenses	$20,000			
Printers			3,000	
High-speed Internet access and service	6,000			
Network costs (servers, cables, etc.)	4,500	$20,500		
Web site development and maintenance		100,000		
IT maintenance (system)	40,000			
Software licenses (resource center) (word processing, spreadsheets, etc.)			4,000	
Software licenses (resource center) (computer assisted learning, resume preparation, etc.)				10,000
Cash to/(from) partners	(1,000)	(2,350)	(300)	3,650
Total	**$69,500**	**$118,150**	**$41,700**	**$48,650**

The payment mechanisms agreed upon by the partners must then be included in the RSA. If one of the partners provides a third-party in-kind contribution as part of its resources, the value of the in-kind contribution must be valued at the time of the donation and in accordance with the requirements outlined in 29 CFR 97.24 or 95.23. If, in the above Method 3 example, Partner 3 provided donated printers as its resource, then the value of the printers would be determined at the time the printers were donated. If the value of the donation was less than the estimated cost of the printers, then Partner 3's resources would need to be further adjusted.

CASE STUDY NO. 4
Common Services and Associated Costs

Assumptions

1. Five partner programs are providing co-located services at the One-Stop center. Three additional partner programs are not co-located at the center but provide services both on-site and through referrals.
2. The co-located partners provide common services of intake/eligibility determination, initial assessment, job search and placement assistance, and career counseling. Note that these may be designated as core or intensive services by WIA and simply as allowable services by partner agencies.
3. The partners have also agreed to share the operational costs associated with co-location at the center.
4. The costs have been estimated on the basis of historical and current expenditure patterns for similar services, and the partners have agreed to reconcile actual costs on a quarterly basis. The costs are pooled for the purpose of this case study. Each pool would be comprised of line item costs.
5. The partners have further agreed that the costs of intake/eligibility determination and initial assessment will be based on the use of FTEs, with all partner agencies providing staff to perform the services.

Shared Costs Budget

The partners have followed the steps outlined in Part I of the TAG to develop the list of shared costs:

- Facilities costs composed of rent, building janitorial and maintenance costs, security costs, and grounds upkeep costs, exclusive of the facilities costs associated with the resource center.
- Operating costs composed of utilities (heat and lights), telephone system, staff and common area furniture, and common supplies (including signage, printed brochures, unique forms) exclusive of the share of operating costs associated with the resource center.
- Resource center costs composed of staffing costs, fax and copier, subscriptions, information displays, and employment workshops, and a proportionate share of the facilities and operations costs based on the square footage of the resource center and adjacent training rooms.
- One-Stop management costs composed of (a portion of) the center director and reception/appointments staff. The center director charges a program for the other portion of the costs as a direct cost of the program.
- Information technology costs composed of Web site maintenance, common data programs (eligibility determination, assessment), hardware and software to support resource center and common staff functions, computer-based training software.
- Shared services costs composed of staff and benefit costs expressed as both FTEs and dollar amounts.

The partners have developed a proposed shared costs budget and have pooled the costs as described on the previous page. Each pool is supported by backup documentation on cost calculations. Each pool also has a description of the costs (above) and a benefit statement. The budget is displayed below.

Cost Item	Yearly Cost	Benefit
Facilities Costs	$250,000	Common location will provide easier customer access to variety of services; single point of contact for employers will lead to increased partner program performance.
Operations Costs	$125,000	Operations costs are the costs required for a common or shared facility to fully function.
Information Technology	$260,000	Common data systems will enhance ability to coordinate programs and provide common services to customers more effectively and efficiently.
Shared Services		
Intake & Eligibility Determination	6 FTE	A common system for determining eligibility will enhance staff capabilities and provide seamless delivery of services to customers.
Initial Assessment	7 FTE	Provision of initial assessment services will streamline intake, provide a more effective referral to services, and enhance staff capability to understand the full range of One-Stop services.
Job Search & Placement Assistance	$225,000	Employers and clients will receive consolidated job-related services, enhancing the job-matching process and thereby increasing program performance.
Resource Center	$160,000	A fully functional resource center will provide customers with additional tools to assist in the job search and placement process as well as information on services available within the community.
One-Stop Management	$90,000	Responsibility for managing the overall operations of the One-Stop center will provide for more efficient program operation and provide a single point of contact to the public and partner management.

Cost Allocation Methodology

The partners have agreed to use a variety of cost allocation methodologies to determine the proportionate share attributable to each partner. The methods are:

- **Occupancy.** Calculation of the dedicated space occupied and used by a partner program as a percentage of the total dedicated space occupied. The percentage calculation is applied to common space as well.
- **Position usage.** Calculation of the number of a program's FTE staff as a percentage of all One-Stop staff. The FTE is based on authorized staffing levels.
- **Equal access.** A calculation based on the total number of partners sharing equally in the costs.
- **Program participation.** A calculation based on the number of participants eligible for and receiving services from a partner program as compared to all participants. Participants eligible for more than one program will be counted once in each program for which they are eligible.
- **Eligibility.** A calculation based on the number of participants eligible for a program compared to the total number of eligible participants.
- **Weighted time distribution.** A calculation based on the number of program eligible participants receiving a service weighted by the amount of time to perform the service as determined through a time study.

Facilities Pool: $250,000 Allocation Base: Occupancy

The One-Stop center is 9,000 square feet with 5,000 square feet of dedicated space, 2,500 square feet of common space, and an additional 1,500 square feet associated with the resource center. The proportionate share of the resource center facilities costs are included in the Resource Center Pool and are not included in the Facilities Pool.

	Square Footage	Common Area	Percent	Costs
Partner 1	2,500		50	$125,000
Partner 2	500		10	25,000
Partner 3	1,050		21	52,500
Partner 4	600		12	30,000
Partner 5	350		7	17,500
Total	5,000	2,500	100	$250,000

Operating Costs Pool: $125,000 Allocation Base: Position Usage

The pool does not include a proportionate amount of the operating costs attributable to the resource center, as those costs are included in the Resource Center Pool.

	Positions	Percent	Costs
Partner 1	10	40	$50,000
Partner 2	2	8	10,000
Partner 3	6	24	30,000
Partner 4	4	16	20,000
Partner 5	3	12	15,000
Total	25	100	$125,000

Resource Center Pool: $160,000 Allocation Base: Equal Access

This pool also includes the costs associated with 1,500 square feet of space used for the resource center and adjacent training rooms.

	Percent	Costs
Partner 1	12.5	$20,000
Partner 2	12.5	20,000
Partner 3	12.5	20,000
Partner 4	12.5	20,000
Partner 5	12.5	20,000
Partner 6	12.5	20,000
Partner 7	12.5	20,000
Partner 8	12.5	20,000
Total	100	$160,000

One-Stop Management Costs: $90,000 Allocation Base: Position Usage

	Positions (FTEs)	Percent	Costs
Partner 1	10	40	$36,000
Partner 2	2	8	7,200
Partner 3	6	24	21,600
Partner 4	4	16	14,400
Partner 5	3	12	10,800
Total	25	100	$90,000

Information Technology Pool: $260,000 Allocation Base: Position Usage

	Positions (FTEs)	Percent	Costs
Partner 1	10	40	$104,000
Partner 2	2	8	20,800
Partner 3	6	24	62,400
Partner 4	4	16	41,600
Partner 5	3	12	31,200
Total	25	100	$260,000

Intake and Eligibility Determination Pool: 6 FTE Allocation Base: Eligibility

The six FTEs are based on a 40-hour week and 52 weeks a year for a total of 12,480 hours needed to staff the function. This does not necessarily equate to the number of hours of center operation. Percents have been rounded to the nearest number for presentation purposes. The total hours have been calculated on the exact percentage attributable to each partner.

	No. Participants	Percent	Hours
Partner 1	300	41	5,073
Partner 2	38	5	643
Partner 3	180	24	3,044
Partner 4	130	18	2,198
Partner 5	90	12	1,522
Total	738	100	12,480

Initial Assessment Pool: 7 FTE Allocation Base: Weighted Time Distribution

The seven FTEs are based on a 40-hour week and 52 weeks a year for a total of 14,560 hours needed to staff the function. This does not necessarily equate to the number of hours of center operation. Percents have been rounded to the nearest tenth.

	No. Eligible	Weight	Total	Percent	Hours
Partner 1	300	1	300	37	5,346
Partner 2	38	1.5	57	7	1,016
Partner 3	180	.8	144	18	2,566
Partner 4	130	1.6	208	25	3,707
Partner 5	90	1.2	108	13	1,925
Total	738		817	100	14,560

Job Search and Placement Pool: $225,000 Allocation Base: Program Participation

Percents have been rounded to the nearest tenth. Costs have been rounded to the nearest dollar. Totals may not add due to rounding.

	No. Participating	Percent	Costs
Partner 1	150	36.1	$81,325
Partner 2	25	6	13,554
Partner 3	115	27.7	62,349
Partner 4	80	19.2	43,374
Partner 5	45	10.8	24,398
Total	415	100	$225,000

Summary Table of Shared Costs

Pool	Partner 1	Partner 2	Partner 3	Partner 4	Partner 5	Partner 6	Partner 7	Partner 8
Facilities	$125,000	$25,000	$52,500	$30,000	$17,500			
Operating Costs	50,000	10,000	30,000	20,000	15,000			
Resource Center	20,000	20,000	20,000	20,000	20,000	$20,000	$20,000	$20,000
One-Stop Management	36,000	7,200	21,600	14,440	10,800			
Information Technology	104,000	20,800	62,400	41,600	31,200			
Job Search & Placement	81,325	13,554	62,349	43,374	24,398			
Total	$416,325	$96,554	$248,849	$169,374	$118,898	$20,000	$20,000	$20,000

Summary Table of Shared FTEs

Pool	Partner 1	Partner 2	Partner 3	Partner 4	Partner 5
Eligibility Determination	5,073	643	3,044	2,198	1,522
Initial Assessment	5,346	1,016	2,566	3,707	1,925

Resource Sharing Methodology

The five partners have agreed to fund the shared costs through the provision of staff time (FTEs) and goods/services.

FTE Resources. Each of the five partners benefiting from the Intake and Initial Assessment Pools must provide the total number of staff hours for each of the positions indicated in the cost allocation table. The staff must be from comparable personnel classifications for each of the two types of positions that were allocated using FTEs. The partners will develop a schedule for the hours, including provisions for scheduled and emergency leave and hours of operation. The following table displays the required staff hours for each partner program:

Pool	Partner 1	Partner 2	Partner 3	Partner 4	Partner 5
Intake/Eligibility Determination	5,073	643	3,044	2,198	1,522
Initial Assessment	5,346	1,016	2,566	3,707	1,925

Goods/Services Resources. To fund the six cost pools, the partners have agreed upon the following provision of goods and services. Each partner will provide resources, and the partners will review the actual costs on a quarterly basis. Adjustments to the following quarter resources will be made as appropriate. Note that the pools have been summarized for this case study. The table below shows the total for each pool that the partners have agreed to provide. Each total is composed of individual line item costs that must be identified and tracked by the partner programs.

Pool	Partner 1	Partner 2	Partner 3	Partner 4	Partner 5	Partner 6	Partner 7	Partner 8
Facilities	$180,000			$70,000				
Operating Costs	80,000		$27,000			$18,000		
Resource Center	16,000		40,000	28,000	$56,000			$20,000
One-Stop Management		$90,000						
Information Technology			197,900	35,000		2,100	$25,000	
Job Search & Placement	136,000			27,000	62,000			
Cash to/(from) Partners	4,325	6,554	(16,051)	9,374	898	(100)	(5000)	
Total	$416,325	$96,554	$248,849	$169,374	$118,898	$20,000	$20,000	$20,000

PART II

ETA GRANT PROGRAMS FINANCIAL MANAGEMENT

INTRODUCTION

Part II of the Comprehensive Financial Management Technical Assistance Guide (TAG) is designed to provide the financial and administrative requirements applicable to Employment and Training Administration (ETA)-funded programs functioning as required partners in the One-Stop system. This section of the TAG amplifies the Workforce Investment Act (WIA or "the Act") and the accompanying regulations, clarifies expectations, addresses issues commonly occurring in the field, identifies operational problems and possible solutions, models best practices, and provides suggestions and techniques to ensure compliance. Part II is modeled after the Welfare to Work (WtW) Financial Management TAG issued in June 1999. It contains the common requirements for grants and financial management found in 29 Code of Federal Regulations (CFR) Parts 95 and 97 applicable to all ETA grant programs. The section also includes an appendix listing all the specific regulatory requirements for each of the programs. As stated in the Preface to this TAG, the WIA specifies that a number of ETA-funded programs participate in and deliver core services through the One-Stop system established under Title I. These programs are as follows:

(1) WIA Title I programs, serving
  (i) Adults
  (ii) Dislocated workers
  (iii) Youth
  (iv) Job Corps
  (v) Native Americans
  (vi) Migrant and seasonal farmworkers
(2) Wagner-Peyser Act programs
(3) Welfare-to-Work programs
(4) Senior community service employment programs
(5) Trade Adjustment Assistance and North American Free Trade Agreement (NAFTA) Transitional Adjustment Assistance activities
(6) State unemployment compensation programs (in accordance with applicable Federal law).

The Veterans' Workforce Investment program funded by the United States (U.S.) Department of Labor (DOL) Assistant Secretary for Veterans is also authorized under Title I of the Act. However, it is not an ETA-funded grant program. Specific references to the Veterans' program are limited to those provisions that apply to all WIA Title I programs.

The specific entities that serve as One-Stop required partners are listed in 20 CFR 662.220. 20 CFR 662.220(a) and (b)(3) list the specific entities that are required partners under WIA Title I programs, and these entities include the grant recipient and/or administrative entity of the local area, and national programs such as Job Corps, the Indian and Native American (INA) program, and Veteran's Workforce Investment programs. This listing does not include the national grants funded under Title I such as National Emergency grants, the Youth Opportunities grants, and other pilot or demonstrations programs. The organizations operating these programs may and will participate in the One-Stop. While these are ETA-funded programs, the requirements applicable to these programs have not been included in the TAG as they are not considered to be required partners.

INTENDED AUDIENCE

This section of the Comprehensive Financial Management TAG addresses the financial and grant management requirements to which all ETA-funded programs providing services within the One-Stop system must adhere when providing services under their particular program. Again, the TAG targets State, local, and other grant staff responsible for ensuring that the ETA programs not only provide the necessary program services but also are properly managed and fiscally sound. While financial management personnel may be the primary and most frequent users of this TAG, program administrators and staff are also part of the intended audience.

HOW PART II IS ORGANIZED

This Introduction describes the ETA-funded programs operating as required partners in the One-Stop system and the intended audience for Part II, and serves as a user guide by describing the contents of each chapter.

Chapters II-1 through II-15 address the financial management and administrative issues applicable to these ETA programs. An overview of each chapter is given in the following paragraphs.

Chapter II-1, *Fund Distribution*, provides guidance on the various funding mechanisms available to obtain funds under the ETA programs that are either authorized under the Act or ETA-funded required partners in the One-Stop system. The funding mechanisms include formula awards as well as discretionary and competitive grant awards. The chapter also contains a number of charts that display the flow of funds from ETA to grantees.

Chapter II-2, *Financial Management Systems*, describes the elements of an acceptable financial management system as specified in the Uniform Administrative Requirements codified in 29 CFR Parts 95 and 97. These requirements provide the framework to effectively implement and manage grant funds.

Chapter II-3, *Cost Principles*, provides guidance to ETA grant recipients and subrecipients on the allowable cost principles embodied in Office of Management and Budget

(OMB) Circulars A-21, A-87, and A-122, and the Federal Acquisition Regulations (FAR) at 48 CFR Part 31.

Chapter II-4, *Allowable Costs*, provides guidance on both allowable and unallowable costs by type of organization as specified in OMB Circulars A-21, A-87, and A-122, and the FAR at 48 CFR Part 31, including a discussion of prior approval requirements. The chapter also addresses allowable and unallowable activities specified in either regulations or legislation and contains a matrix of allowable and unallowable costs as described in the circulars.

Chapter II-5, *Cost Classification*, provides guidance on proper classification of direct costs to cost categories and program activities. It includes a discussion of the WIA Title I definition of administrative costs and the applicability of this definition to ETA grant programs, and a discussion of the combined administrative funding streams available under WIA Title I formula grants.

Chapter II-6, *Cash Management*, discusses the requirements for cash management contained in the Uniform Administrative Requirements, including the applicability of the Cash Management Improvement Act (CMIA). The chapter also provides an overview of the Payment Management System (PMS) used to draw down funds. It provides guidance on efficient and effective cash management for grantees and subgrantees, and discusses the use of a drawdown system for meeting immediate cash needs. A summary of cash management techniques is also included as an attachment to the chapter.

Chapter II-7, *Program Income*, discusses what is and is not included in program income, how to account for it, and what requirements apply to its use. It also provides a discussion of the different treatment of interest for programs funded under WIA Title 1.

Chapter II-8, *Cost Allocation and Cost Pooling (Non One-Stop Shared Costs)*, provides guidance on cost allocation principles, methods of allocating costs, the use of cost pools, the development of cost allocation plans (CAPs), and allocation of personal services costs to ensure that grant costs are properly and equitably distributed to the benefiting cost objectives. The chapter focuses on indirect and shared direct costs of the grants, rather than the shared costs of the One-Stop system.

Chapter II-9, *Financial Reporting*, provides a description of the required WIA Title I formula financial reports (ETA 9076A-F), WtW financial reports (ETA 9068), the reporting form for Trade Adjustment Assistance (TAA)/North American Free Trade Act/Transitional Adjustment Assistance (NAFTA/TAA) (ETA 9023), and the Standard Form (SF) 269 reporting as it applies to ETA grant programs. Also included in the chapter is a discussion of the electronic reporting system in use for many of the grants. The chapter further provides guidance on subrecipient reporting and a review of participant reporting issues. It also includes a discussion of the reporting of non-Federal resources expended for grant purposes and links to potential stand-in costs.

Chapter II-10, *Procurement*, provides a discussion of basic procurement requirements applicable to grantees and subgrantees. It also provides guidance on required contract clauses and assurances and includes a discussion of fixed-price performance-based contracts.

Chapter II-11, *Property Management*, addresses the property management requirements of ETA grant programs and the relevant OMB circulars and related regulations.

Chapter II-12, *Audits and Audit Resolution*, outlines audit requirements under the Single Audit Act, OMB Circular A-133, and DOL regulations at 29 CFR Parts 96 and 99. It provides guidance on the resolution of audit findings and administrative appeals, including the appeals process contained in 20 CFR Part 667 Subpart H. It also includes a discussion of the use of "stand-in" costs.

Chapter II-13, *Disposition of Disallowed Costs*, provides a discussion of the methods available to grantees and subgrantees for the payment of disallowed costs, including the waiver of liability and the offset provisions contained in 20 CFR Part 667, Subpart G.

Chapter II-14, *Records Retention*, provides guidance to grantees and subgrantees on proper maintenance of financial and programmatic records that must be accessible to authorized Federal and State staff and that are subject to monitoring, reporting, and audit.

Chapter II-15, *Agreement Closeouts*, explains each recipient's responsibilities and provides guiding principles for developing closeout procedures at all levels. It also includes the closeout documents currently used by the ETA and instructions for their completion.

CAUTIONS

The information provided in Part II of the TAG is intended to aid ETA-funded partner agencies in administering their particular grant(s) and subgrant(s). It is not intended to supplant or replace regulations and requirements contained in applicable OMB circulars and the *Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments; Final Rule* (the "Common Rule") but to provide practical examples and clarification. Wherever the TAG is quoting the Act or the regulations, citations are provided immediately following the reference.

Appendices A through E provide additional resources for the user; Appendix D contains a comprehensive glossary. Within the regulations, legislation, and circulars, there may be more than one definition of a single term. To the extent possible, this TAG uses the more extensive definition or the definition found in the legislation. In addition, some terms may have similar definitions that may be named differently, i.e., grant and award. If in any instance the definitions or their use in this TAG appear to conflict with the Act or Federal regulations applicable to each ETA-funded program, such conflict must be resolved in favor of the Act and the regulations, which take ultimate precedence.

Chapter II-1

Fund Distribution

INTRODUCTION

This chapter provides a discussion of the various funding mechanisms available to obtain funds under the ETA-funded grant programs addressed in this TAG and identified as One-Stop partners. It contains the following sections:

- Federal Budget Process
- WIA Allotments and Allocations
- Non-WIA Allotments and Allocations.

Following the last section, Charts II-1-1 through II-1-11 provide schematic presentations for fund distribution under these programs. Chart II-1-12 provides a schematic presentation of fund availability for WIA Title I programs.

FEDERAL BUDGET PROCESS

The Federal budget process begins approximately 19 months before the beginning of the fiscal year for appropriated funds. At that time, OMB develops economic assumptions and establishes general budget and fiscal policy guidelines to be followed by Federal agencies. The OMB issues formal instructions on the budget process to agencies that include the economic assumptions, guidelines and policies, and budget ceilings. Based on these preliminary instructions and ceilings, ETA instructs the program offices to develop budget projections. In May, ETA receives formal instructions on the budget process from the DOL. The ETA then prepares, finalizes, and submits the budget request to the DOL Departmental Budget Center in early July. During July and August, the DOL reviews and accepts or rejects the agency budgets and hears agency appeals. The DOL submits the DOL budget, including the ETA budget, to OMB in early September. OMB then reviews the budgets, conducts budget hearings, and works with the various Federal agencies to finalize each agency budget. ETA works with the DOL to prepare the final budget materials for the President's budget and for the Congressional committee hearings. The President's budget is submitted to Congress within 15 days after Congress convenes in January.

Between January and September, the budget is acted upon by Congress. Congressional budget committee hearings are held, and a first concurrent budget resolution is issued by April 15. Congress completes its action on the concurrent budget resolution by May 15. Congressional appropriations subcommittees hold hearings and review budget justifications.

Appropriation bills, once approved, are sent to the President for approval or veto. Congress must complete action on the appropriations or spending bills by September 30 or enact a continuing resolution.

When the appropriation is approved, a warrant is drawn by Treasury and forwarded to the Federal agencies. Ten days after the appropriation is approved, ETA submits an apportionment request to OMB. OMB makes the apportionment 30 days after approval. When the apportionment has been made by OMB, ETA allots funds to programs.

WIA ALLOTMENTS AND ALLOCATIONS

Title IB Adult, Dislocated Worker, and Youth Programs

Congress appropriates the funds for WIA Title IB programs by the funding streams for Adult, Dislocated Worker, and Youth programs. Under the Governor-Secretary Agreement, funds are authorized for expenditure through a grant agreement (and associated Notices of Obligation (NOOs)) entered into on a program year (PY) basis between the Governor (or designated representative) and the Secretary or the Grant Officer. For States, funds are available for expenditure during the PY of allotment and the two succeeding PYs. For local areas, funds are available for the year of allocation plus one succeeding year.

Of the funds allotted to a State for Adult, Dislocated Worker, and Youth activities, the State may reserve up to 15 percent of the funds for Statewide activities, including 5 percent reserved for State administrative activities, and may reserve up to 25 percent of the funds available in the Dislocated Worker funding stream for statewide rapid response activities. The remaining funds must be allocated to local areas in accordance with WIA Sections 128 and 133 and the regulations at 20 CFR 667.130. Should the Governor decide to develop a discretionary formula to allocate adult or youth funds, the State Board must assist the Governor in the development of such formulas. The formulas for allocation of Adult activity funds are found at 20 CFR 667.130(d). The allocation formula criteria for Dislocated Worker programs are found at 20 CFR 667.130(e). The allocation formulas for distribution of Youth activity funds are found at 20 CFR 667.130(c). Charts II-1-1 through II-1-3 at the end of this chapter show the distribution of funds for Title IB programs. Chart II-1-12 shows the periods of fund availability for WIA Title I funds.

In addition, the Governor may elect to apply the “hold-harmless” provisions of 20 CFR 667.135 in the allocation of Adult or Youth funds to local areas. No hold-harmless provisions are available for the Dislocated Worker funds allotted to the State.

The Adult and Dislocated Worker programs are authorized to transfer up to 20 percent of the PY allocation between them. The Governor must approve such transfers. No transfers of funds are authorized for the Youth program. [20 CFR 667.140]

Title IB funds are allotted on both a PY and fiscal year (FY) basis. PY funds are available for expenditure beginning on July 1, which is the start of the PY. For example, PY

2002 funds will be available on July 1, 2002. FY funds are available on October 1 of calendar year preceding the FY. For example, FY 2003 funds are available on October 1, 2002. Title IB PY Youth funds are available on April 1 of the appropriate PY. For example, PY 2002 Youth funds are available on April 1, 2002. All funds, including Youth and FY allotments, expire on June 30, three years after the start of the PY of allotment. For example, all Title IB PY and FY 2002 funds will expire on June 30, 2005.

The Title IB Adult and Dislocated Worker programs are also subject to the recapture and reallotment of funds provisions addressed in 20 CFR 667.150. The Governor must follow the guidelines set forth at 20 CFR 667.160 in reallocating Adult, Youth, or Dislocated Worker funds among the local areas.

Title IC Job Corps Program

The funds appropriated for Job Corps activities conducted under WIA Title IC are awarded through a competitive process. A Request for Proposal (RFP) is issued by the ETA, and contracts are awarded to operate centers and provide operational support services. The Secretary enters into cooperative agreements for the funding of civilian conservation centers funded under Title IC with other Federal agencies. The regulations at 20 CFR 667.105(e) provide the requirements for Job Corps fund distribution. Chart II-1-4 also provides a flow chart detailing the distribution of funds.

Title ID Indian and Native American (INA) Program

The provisions of the INA program that address eligibility for funds are found at 20 CFR 667.105(c) and 20 CFR Part 668, Subpart B. These provide that funds are awarded on a competitive basis for a two-year period. A succeeding two-year period may be awarded to the same recipient on a noncompetitive basis if the conditions at 20 CFR 667.105(c)(i-ii) are met. To compete for awards, prospective grantees must meet the requirements of 20 CFR 668.200 for attaining designation as an INA grantee. Entities potentially eligible for designation are Federally recognized Indian tribes, tribal organizations as defined in 25 United States Code (U.S.C.) 450b, Alaska native-controlled organizations ("native" is defined in the Alaska Native Claims Settlement Act), Native Hawaiian-controlled entities, Native American-controlled organizations serving Indians, and consortia of eligible entities. The regulations contain provisions for prioritizing designations, determining an eligible organization's ability to administer the funds, and termination and appeal rights related to designation.

Of the funds appropriated for INA activities, ETA may reserve up to one percent for technical assistance and training activities. The remaining funds are allocated to INA-designated grantees utilizing the formula found at 20 CFR 668.296(b).

Supplemental youth services funding is allocated to INA-designated grantees utilizing the formula contained in 20 CFR 668.440(a). Hold-harmless and reallocation provisions are also contained in 20 CFR 668.440. Chart II-1-5 shows the fund distribution for INA programs.

Title ID National Farmworker Jobs Program

Awards for the National Farmworker Jobs program (NFJP) are allocated to eligible entities on a competitive basis every two years for a two-year period [20 CFR 667.105(d)] and may be renewed for the succeeding two-year period if the conditions at 20 CFR 667.105(d)(i-ii) are met. Eligible entities are defined in the regulations at 20 CFR 669.200(a). Eligible entities must have an understanding of the problems faced by program eligible farmworkers and their dependents and a familiarity with local agricultural industry and labor market needs. They must also demonstrate the capacity to administer the program and have the capacity to work effectively as a One-Stop partner.

Of the funds appropriated for NFJP activities, up to six percent may be reserved for discretionary purposes, including grantee technical assistance and farmworker housing activities. The remaining 94 percent must be allocated to State service areas under a formula published in the *Federal Register*. The competitive grants are awarded for services within the State service area. Chart II-1-6 shows the fund distribution for the NFJP.

NON-WIA ALLOTMENTS AND ALLOCATIONS

Employment Services

Funds are allocated to States for Employment Services utilizing the statutory funding formulas contained in Section 6 of the Wagner-Peyser Act, as amended. States are presented with preliminary and final planning estimates based on historical data. The National Reserve funds contain an estimated amount set aside for State postage costs, funds for employment activities conducted by the Territories, and a three-percent reserve required by law. The remaining funds are allocated using the formula factors described in the Wagner-Peyser Act. States may also receive funds from the three-percent reserve if they meet certain criteria. Additional information on Employment Services allotments may be found on the ETA Budget Web site, http://www.doleta.gov/budget/statfund.asp. Chart II-1-7 displays Employment Services fund distribution.

Unemployment Insurance Programs

Unemployment compensation administrative funds are allocated to States based on an administrative formula rather than on a statutory formula. Planning estimates are provided to State agencies based on historical funding levels. There are seven factors for the final determination of base-level operations funding. In addition, States may receive contingency funding based on additional workload factors through supplemental Unemployment Insurance (UI) budget requests. Additional information on UI allotments may be found on ETA's Budget Web site, http://www.doleta.gov/budget/statfund.asp. Chart II-1-8 displays UI fund distribution.

Senior Community Service Employment Program (SCSEP)

Funds are allotted for the Senior Community Service Employment program (SCSEP) for older workers based on the statutory funding formula contained in the Older Americans Act, Title V, Section 506. Of the funds available for grants to States and nonprofit "National grantees," 78 percent are allotted to the National grantees and 22 percent are allotted to the States. In addition, Section 507 requires that the amounts allotted to the States and National grantees serving each State must be equitably distributed among the States and within each State, based on need and on State priorities indicated in the State plans. The ETA Budget Web site, http://www.doleta.gov/budget/statfund.asp, provides additional information on the funding formula for the SCSEP. Chart II-1-9 displays the SCSEP fund distribution.

Trade Adjustment Assistance (TAA)/North American Free Trade Act/Transitional Adjustment Assistance (NAFTA/TAA)

Funds for TAA/NAFTA/TAA training services are made available to States through the State agency responsible for administering the Employment Services and UI funds. States request obligational authority (or funding) to meet identified needs for eligible participants. These requests are submitted on a quarterly basis, or as needed, to ETA along with the program expenditures. The funds are broken out by Administration and Training classifications, and the fund requests are based on petition flow, Worker Adjustment and Retraining Notification Act (WARN) notice, and layoff notices received or known by the State agency. Additional benefits such as job search/relocation funds may be available for participants as needed. TAA/NAFTA/TAA benefits are supplemental unemployment compensation and are requested in the same manner as supplemental UI benefit requests. Chart II-1-10 displays fund distribution for the TAA/NAFTA/TAA program.

Welfare to Work (WtW) Programs

Of the total funds appropriated (less certain set-asides) by the Congress for WtW activities, 75 percent are reserved for formula grants to States. WtW funds are provided to the States in accordance with the allotment procedures described in the authorizing WtW legislation at Section 403(a)(5)(A)(vi)(I) of the Social Security Act. The total Federal funds available to each State are also based on the amount of matching funds to be provided by the State. Allotment of WtW funds is for expenditures on a Federal FY basis, and the funds are available for expenditure over a three-year period.

At least 85 percent of the funds allotted to a State must be allocated to local area grantees. The Governor is required to establish a formula for the distribution of funds to the local area grantees that is based on the factors described in Section 403(a)(5)(A)(vi)(I) of the Act. The factors are also described in 20 CFR 645.410(a)(2-3). In the event that the funds allocated to a local area grantee according to the State's distribution formula are less than $100,000, these amounts are retained at the State level for use in special projects. [20 CFR 645.410(a)(4)] The remaining 15 percent of the State allotment is reserved for use at the State level to fund projects designed to transition long-term welfare recipients into

unsubsidized employment. [20 CFR 645.410(b)] Chart II-1-11 shows the distribution of WtW formula funds.

Of the total funds appropriated by the Congress for WtW activities, approximately 25 percent are used by the DOL to directly fund, on a competitive basis, projects with a broad spectrum of community-based organizations, local area grantees, or political subdivisions such as local governments. The grants are awarded based on proposals submitted to the ETA Grant Officer in accordance with criteria published in the *Federal Register*.

Welfare-to-Work funds may be spent on long-term welfare recipients, certain non-custodial parents, and "other eligibles", e.g., welfare recipients with significant barriers to self-sufficiency and low-income custodial parents. [20 CFR 645.212 & 645.213] Grantees may spend no more that 30 percent of grant funds on services to individuals determined eligible under the "other eligibles" category.

Chart II-1-1

Formula Fund Distribution
WIA Title IB – Adult

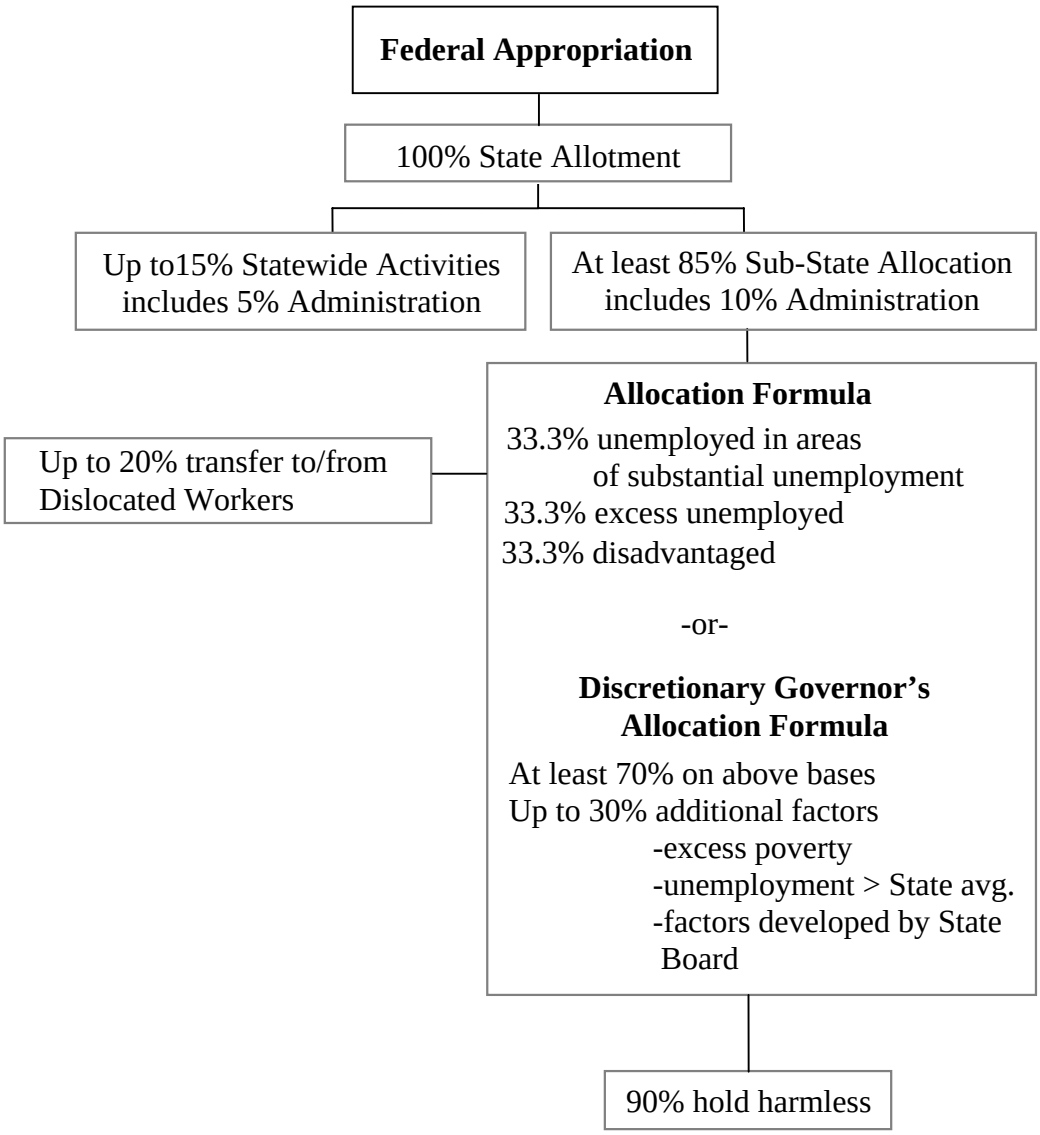


Chart II-1-2

Formula Fund Distribution
WIA Title IB – Dislocated Worker

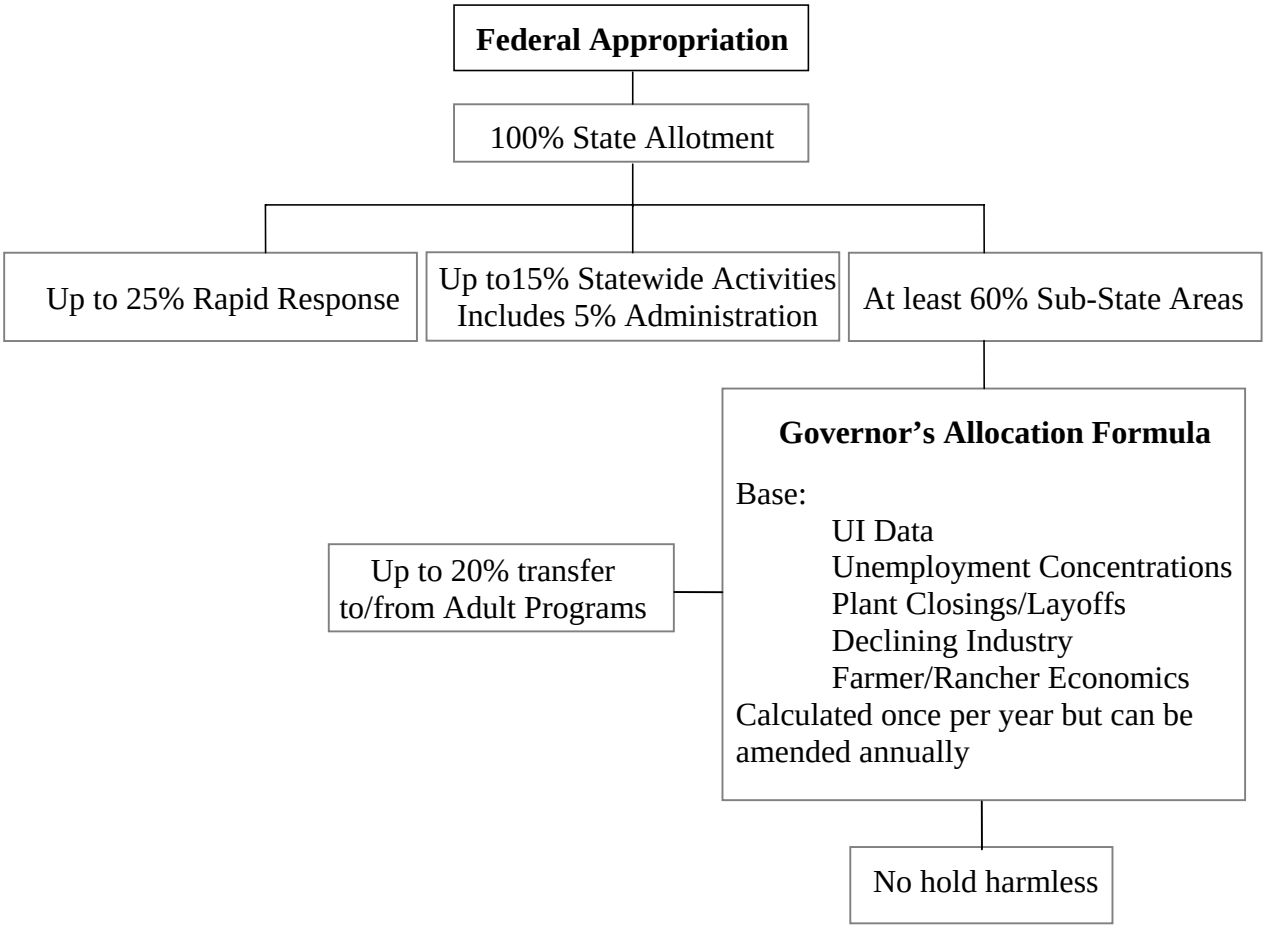


Chart II-1-3

Formula Fund Distribution
WIA Title IB – Youth

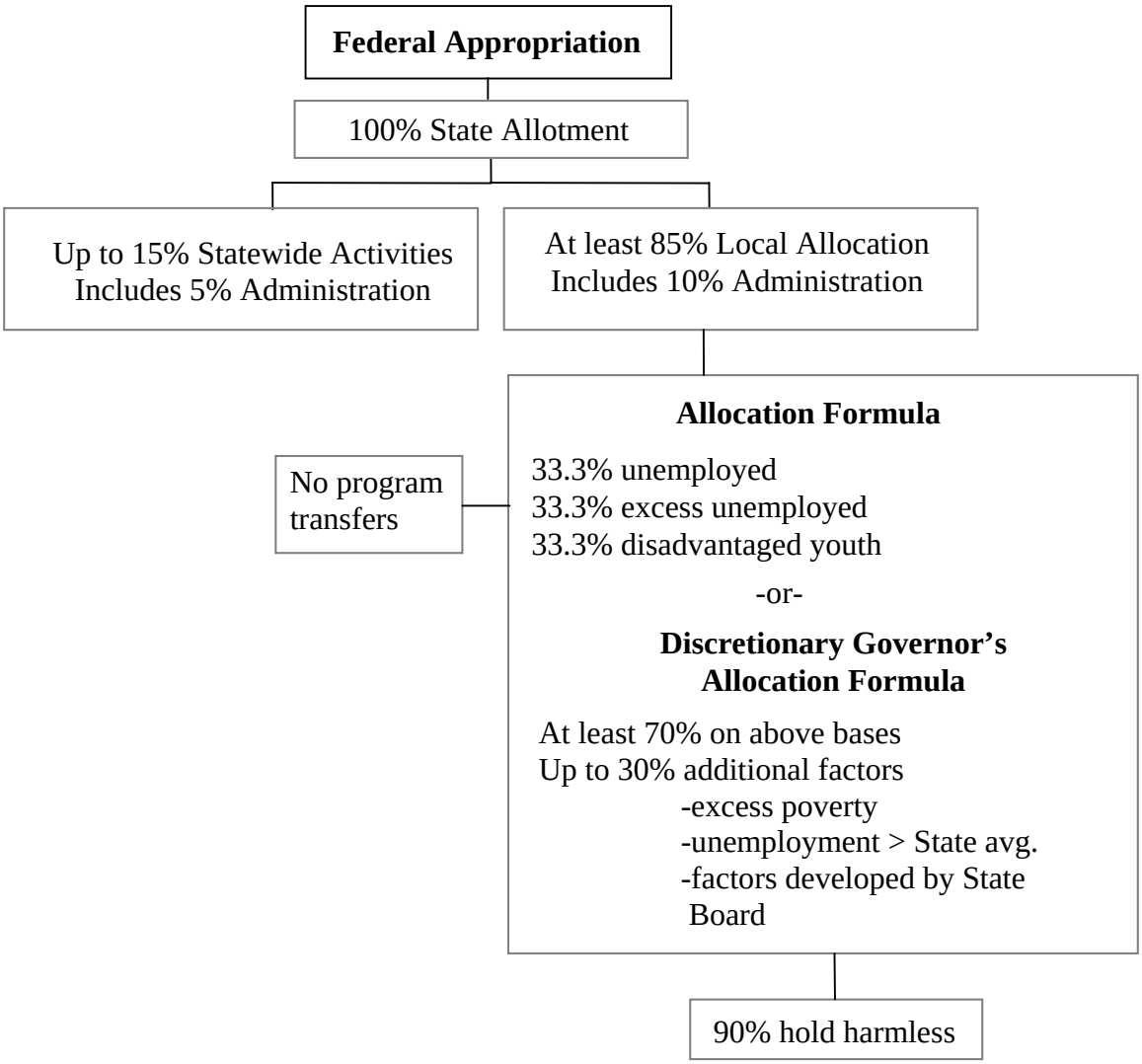
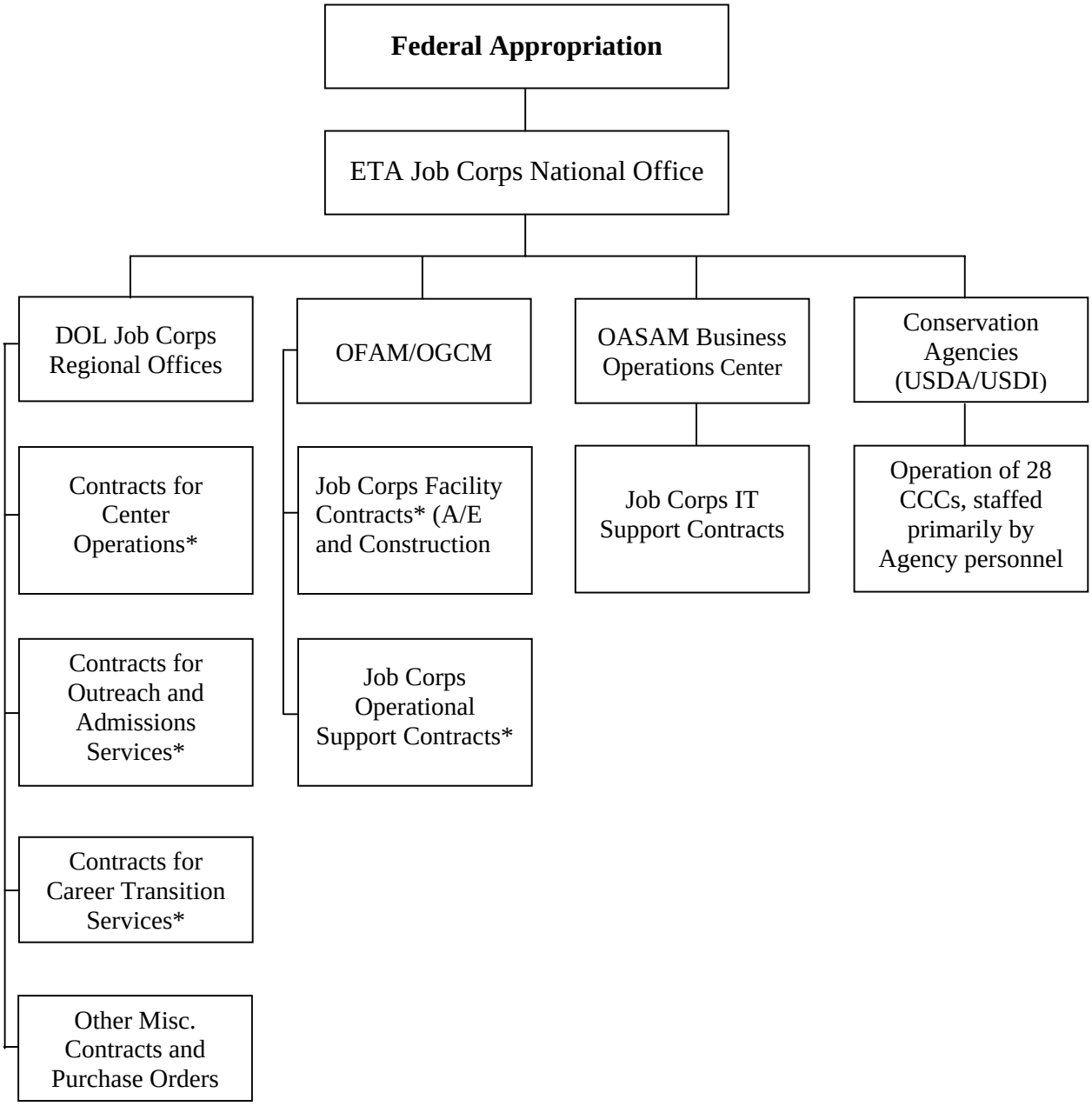


Chart II-1-4

Fund Distribution
WIA Title IC – Job Corps



*With isolated exceptions, these contracts are issued on a competitive basis.

Chart II-1-5

Fund Distribution
WIA Title ID – Native American Programs

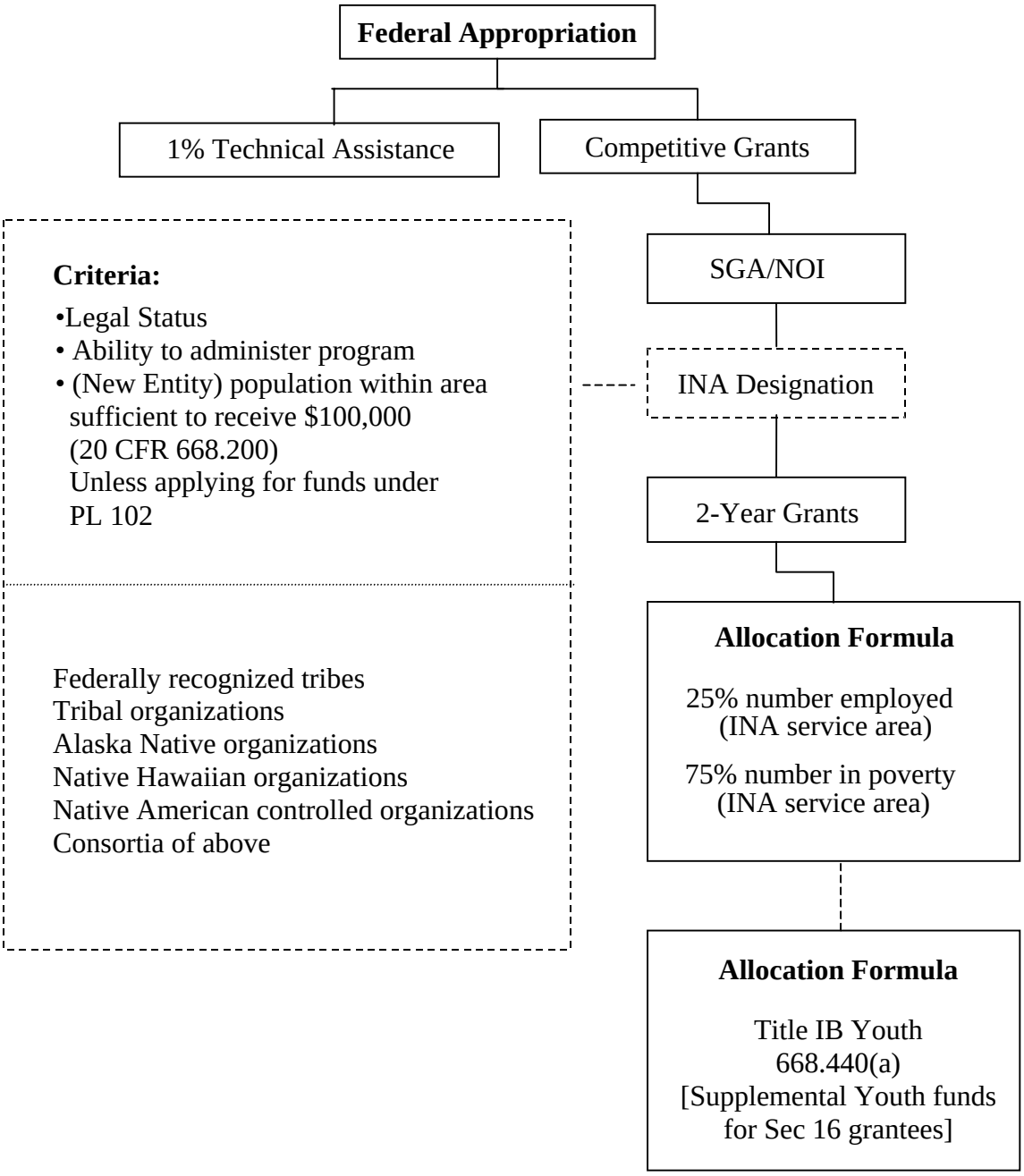


Chart II-1-6

Fund Distribution
WIA Title ID – National Farmworker Jobs Program

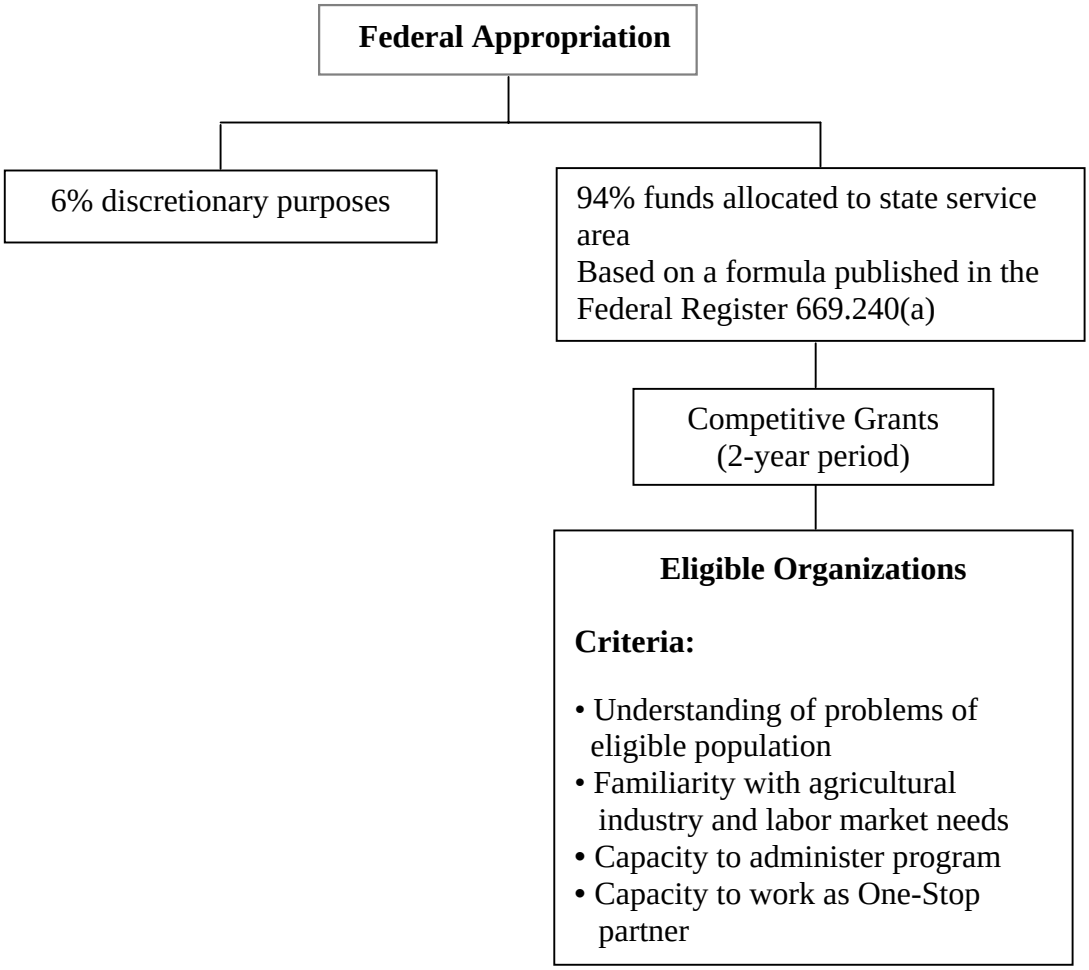


Chart II-1-7

Fund Distribution
Employment Services

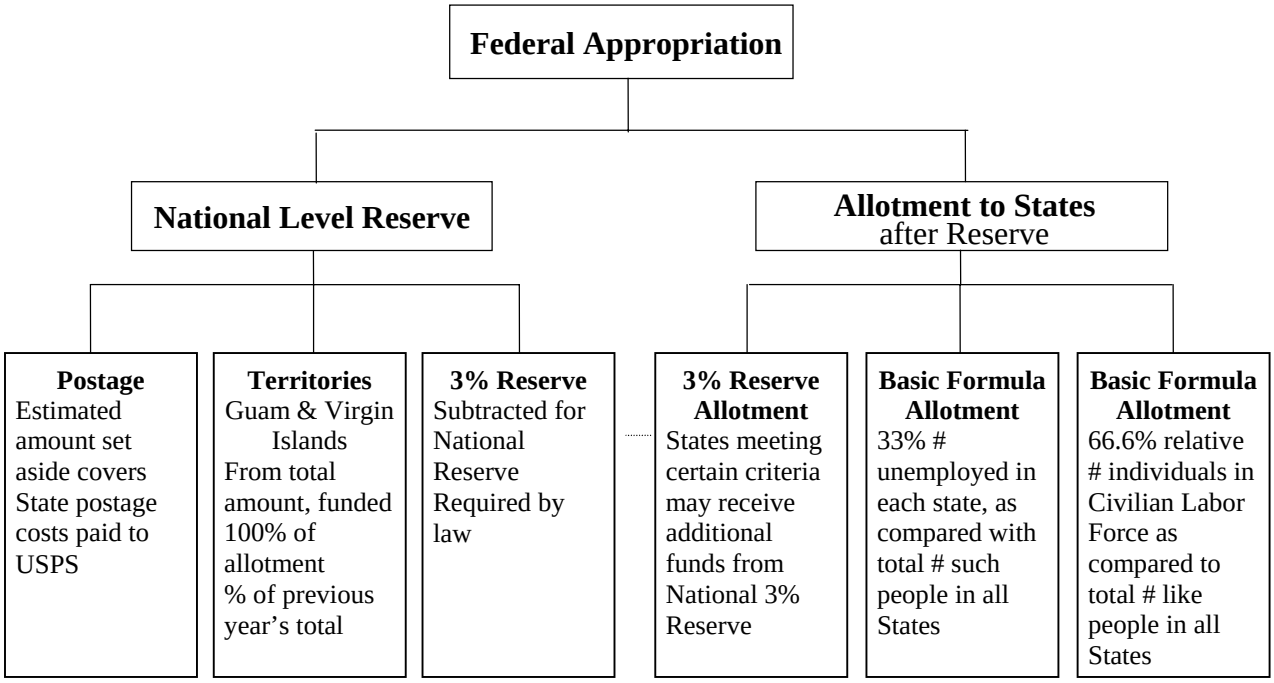


Chart II-1-8

Fund Distribution
Unemployment Insurance

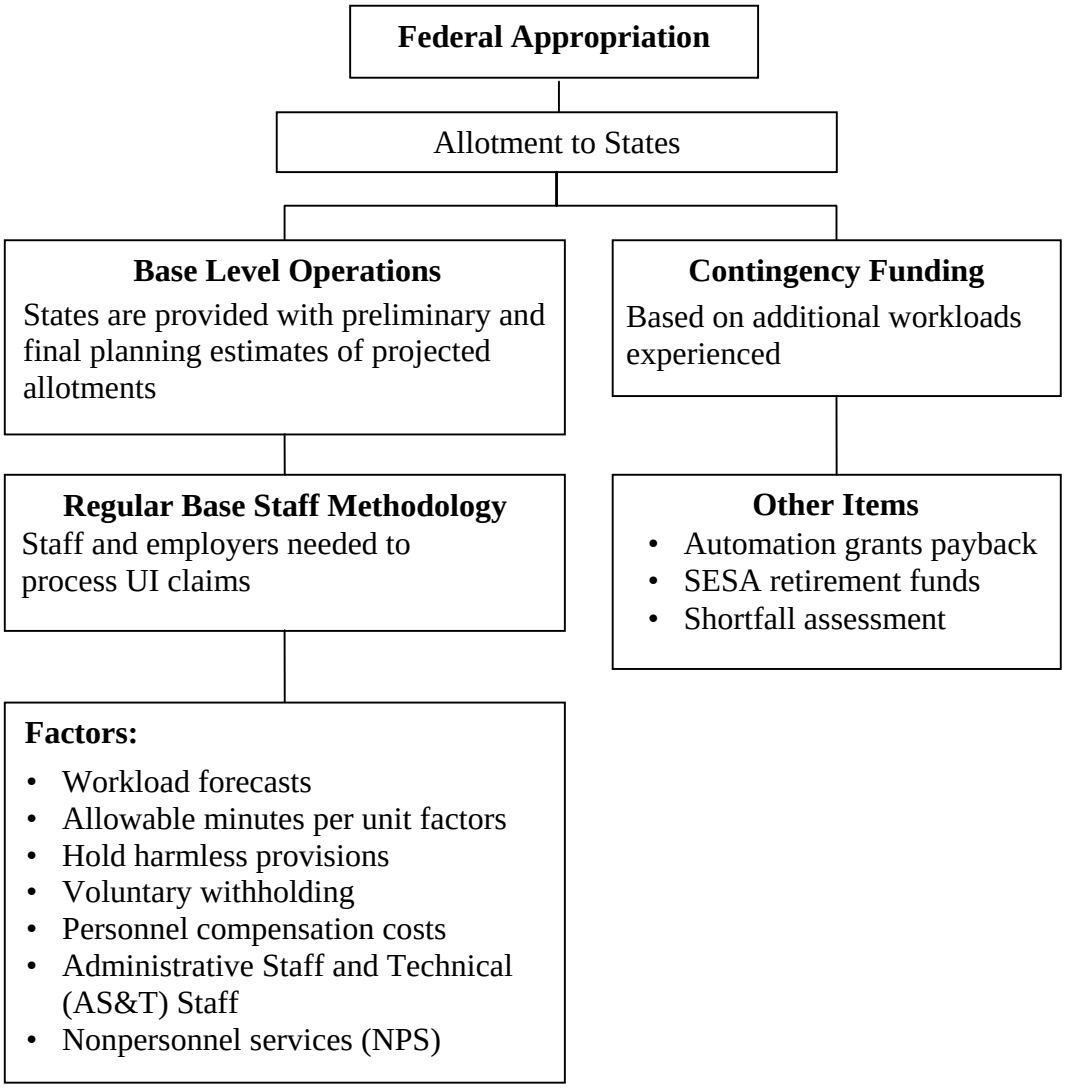
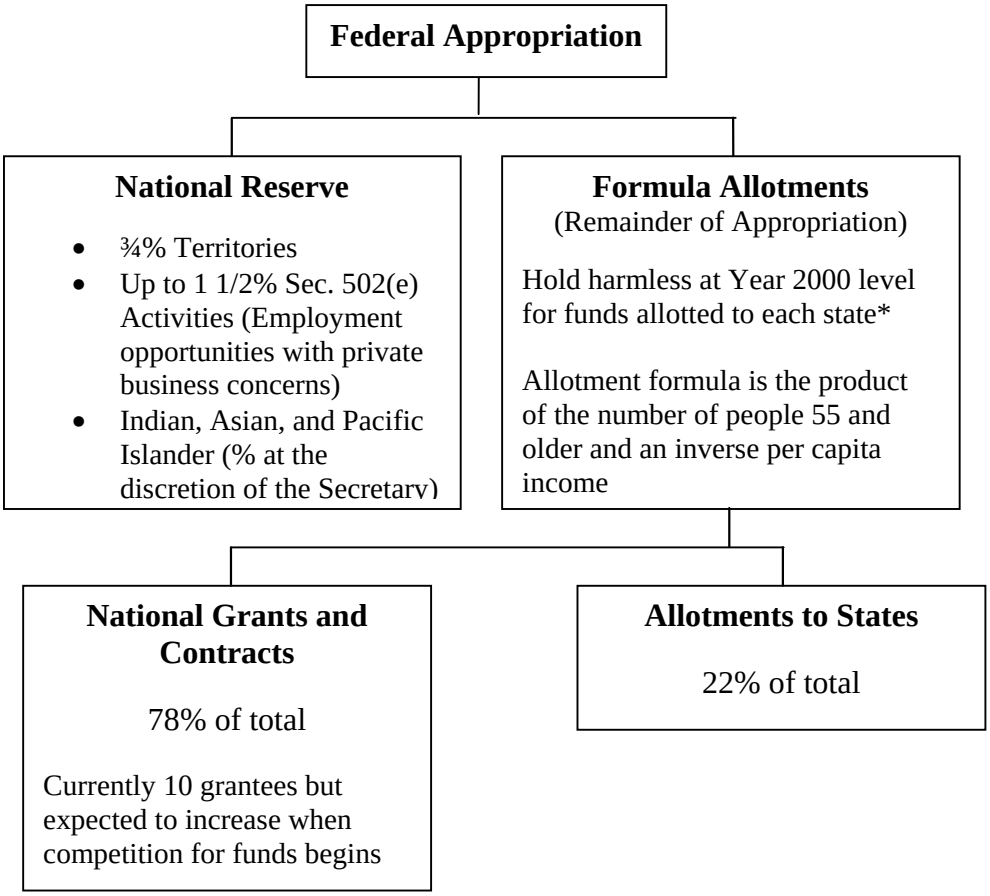


Chart II-1-9

Fund Distribution
Senior Community Service Employment Program



*The relative amounts allotted to States and National Grantees changes if amount appropriated exceeds Year 2000 hold harmless level.

Chart II-1-10

Fund Distribution
Trade Adjustment Assistance and NAFTA/TAA

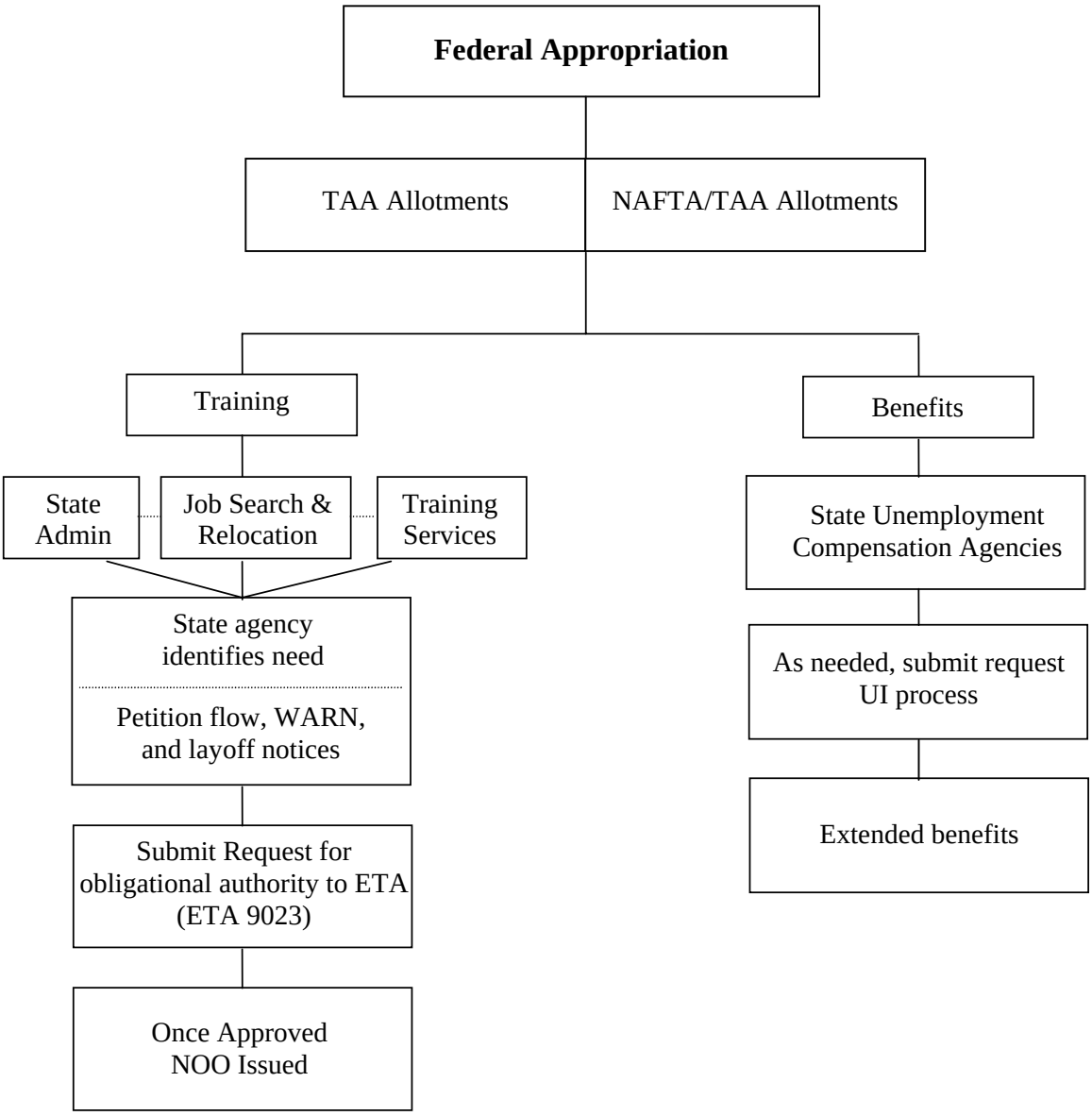


Chart II-1-11

Formula Fund Distribution
Welfare-to-Work

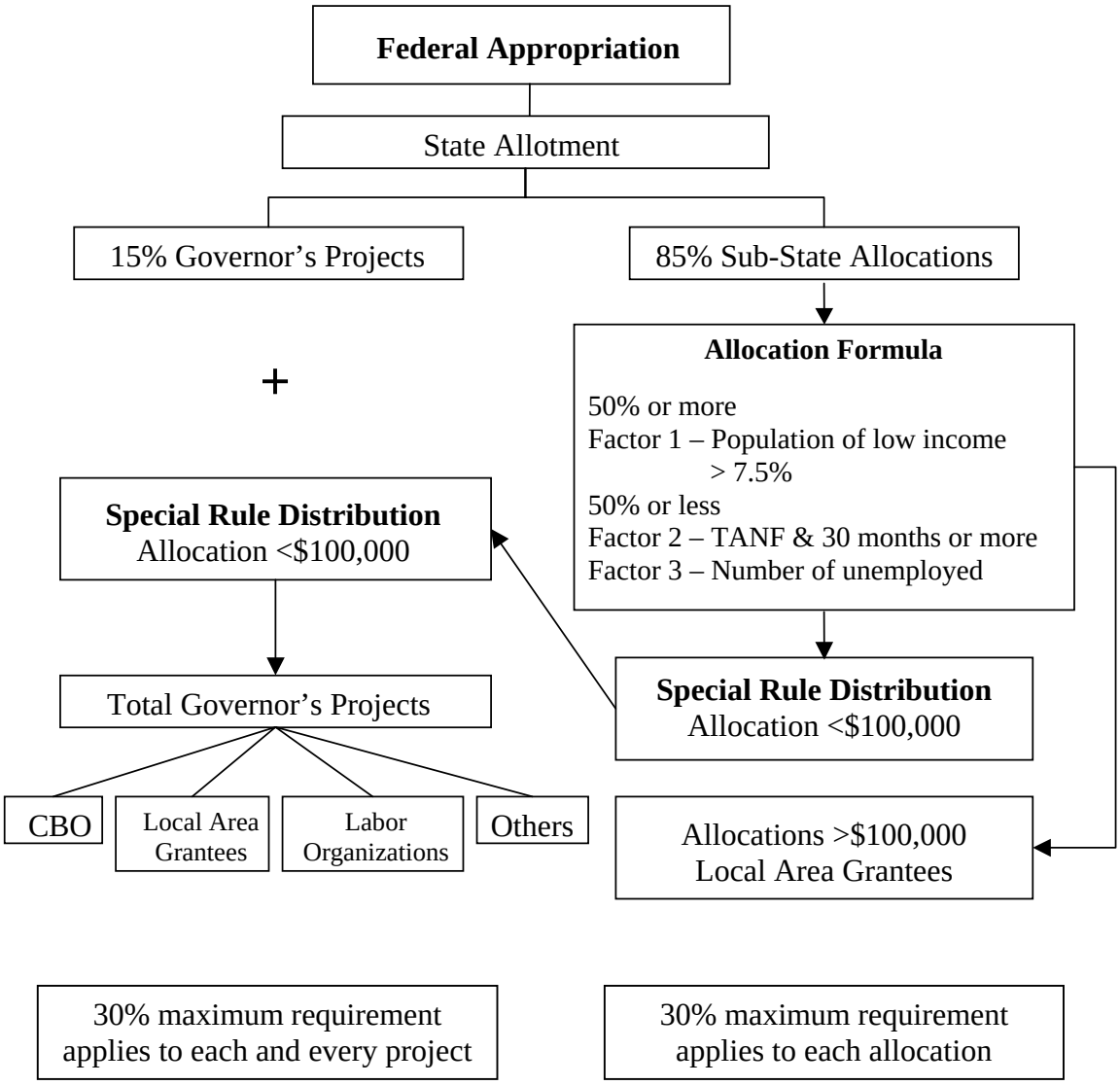


Chart II-1-12

Workforce Investment Act of 1998
Period of Fund Availability

	Year 1	Year 2	Year 3	Year 4	Year 5
Local (LWIA)					
States					
Demos, pilots, multi-service, research, & multi-States projects		Specified	in Grant	Award*	
Youth Opportunity Grants					
Native American Programs					
Migrant & Seasonal Farmworkers Programs					

Funds will be made available beginning on: -July 1 for Adult & Dislocated Workers Programs
-April 1 for the Youth Program

*An appropriation is available for a maximum of five years from the beginning of the program year or fiscal year, as applicable. Funds obligated under the WIA, Sections 171 and 172, are available until expended.

Chapter II-2

Financial Management Systems

INTRODUCTION

The administrative rules applicable to the use and protection of ETA grant funds are found in DOL regulations for the management of grant funds at 29 CFR Part 97 and 29 CFR Part 95. The rules applicable to State, local, and Indian tribal governments are contained in 29 CFR Part 97, and 29 CFR Part 95 contains the rules applicable to institutions of higher education and other nonprofit organizations. The DOL has also extended the rules in Part 95 to commercial organizations that function as either recipients or subrecipients of ETA grant funds. In addition to specific rules on property management, payments, reporting, and a number of other grant management topics, both Parts 97 and 95 lay the framework for grant management through the definition and description of a system that properly accounts for and manages grant funds.

This chapter contains the following sections:

- Regulations and Requirements
- Financial Management System Standards.

REGULATIONS AND REQUIREMENTS

The requirements for the administrative and financial management systems applicable to governmental entities are specified in 29 CFR Part 97. Under the section titled *Standards for Financial Management Systems*, 29 CFR 97.20(a) specifies the requirements for administrative and financial management systems for States, and 97.20(b) contains the requirements for local governments, Federally recognized Indian tribes, and subgrantees.

The requirements for administrative and financial management systems applicable to institutions of higher education, hospitals, other nonprofit organizations, and commercial or for-profit organizations that function as subrecipients or recipients of ETA grant funds are specified in 29 CFR 95.21.

The requirements for both governmental and nongovernmental organizations are substantially the same, with the exception of States. For States, adherence to the requirements of 29 CFR 97.20(a) will mean that each State must expend and account for grants in accordance with the State laws and procedures for expending and accounting for its own funds as long as State procedures do not conflict with the WIA or other Acts, grant requirements, or DOL regulations. Where State procedures are in conflict, such conflict must be resolved in favor of the Federal requirements.

FINANCIAL MANAGEMENT SYSTEM STANDARDS

Both 29 CFR 97.20(b) and 95.21(b) establish a set of standards that must be included in the financial management systems of grantees and subgrantees. Each of these seven standards is discussed below:

- **Financial Reporting.** Accurate, current, and complete disclosure of the financial results of ETA grant activities must be made in accordance with ETA grant reporting requirements. This means that the allowable costs reported to the Federal funding source must be traceable to accounting records. In addition, all allowable costs and activities must be reported, and the reports must be submitted in the format specified by the ETA. For WIA Title IB grants, this report is the WIA Quarterly Financial Status Report (ETA 9076A-F). For the WtW program, the format is the ETA 9068. The approved report format for INA programs is the ETA 9080, and for the TAA/NAFTA/TAA program, the ETA 9023. For other grants addressed in this TAG, and for TAA benefits funds, the report is the SF 269. ETA requires reports to be made on an accrual basis. A further discussion of reporting requirements is found in Chapter II-9, *Financial Reporting*.

- **Accounting Records.** All grantees must keep records that adequately identify ETA grant funds. The records must contain information pertaining to grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income. The records must be maintained in accordance with Generally Accepted Accounting Principles (GAAP). Grantees and subgrantees may use either the cash or the accrual method of accounting; however, expenditures must be reported to the ETA on an accrual basis. If the records are maintained on a cash basis, the grantee or subgrantee must usually maintain a set of linking records, typically accrual spreadsheets, so that the reported costs are traceable during monitoring or auditing to the official accounting records or books of account.

- **Internal Control.** Effective control and accountability must be maintained for all grant and subgrant cash, real and personal property, and other assets. Internal controls are designed to provide safeguards for Federal funds. For example, payments may not be authorized solely by an employee who also has the authority to sign checks. Internal controls for property often are inherent in the inventory system that tracks purchases and locations or use of property procured with grant funds. Grantees must adequately safeguard all such property and must assure that it is used solely for authorized ETA grant activities, including shared One-Stop activities.

- **Budget Control.** Actual expenditures or outlays must be compared with budgeted amounts for each grant or subgrant. This is often referred to as a "planned vs. actual" analysis. The results of such analysis are used to preclude overspending and/or to modify contracts and grant agreements. For non-formula grants, the information is also used to ensure compliance with the budget line item flexibility provision specified in the grant terms and conditions. Financial information must be related to performance or productivity data, including the development of unit cost information whenever appropriate or specifically required in the grant or subgrant agreement. This information should be used in developing plans and

monitoring. A further discussion of budgets as they relate to the shared costs of One-Stop operations is found in Chapter I-2, *Shared Costs Budgets.*

- **Allowable Costs.** Applicable OMB cost principles, ETA grant regulations, and the terms of the grant and subgrant agreements must be followed in determining the reasonableness, allowability, and allocability of costs. Only allowable costs may be charged to an ETA-funded grant, and no grant may pay for more than its fair share of the costs (allocability). This means that the grantee must determine what costs incurred by the organization are allowable, following the guidelines specified above. A more detailed discussion of allowable costs is found in Chapters II-3, *Cost Principles*, and II-4, *Allowable Costs*.

- **Source Documentation.** Accounting records must be supported by source documentation such as canceled checks, invoices, purchase orders, paid bills, payrolls, time and attendance records, contract and subgrant award documents, tax records, etc. Source documentation is the proof that costs reported to the granting agency are, in fact, allowable and allocable to the grant. This source documentation must be available for review by awarding agency representatives and auditors and directly relate to the costs claimed on financial reports.

- **Cash Management.** Procedures for minimizing the time elapsing between the transfer of funds from the U.S. Treasury and disbursement by grantees must be followed whenever advance payment procedures are used. When advances are made by Payment Management System (PMS)/electronic transfer of funds (ETF) methods, the grantee must forecast cash needs to ensure that cash is received as close as possible to the time of actual disbursement. Grantees must also monitor the cash received by their subgrantees to minimize cash on hand. In addition, they must ensure that the subgrantees' cash management procedures conform substantially to the same standards of timing and amount that apply to the awarding entity. A further discussion of the cash management requirements is found in Chapter II-6, *Cash Management*.

In addition, 29 CFR 95.21(a) requires that all nongovernmental recipients relate the financial results of the program to program performance information and develop unit cost data "whenever practicable." In practical terms, this requirement specifies that grantees compare the costs associated with the program to the results achieved by that program. A simple example of this would be to divide the costs of a job placement contract by the number of placements, resulting in a "cost per placement."

An awarding entity may review the adequacy of the administrative and financial management system of any grantee/subgrantee/competitive grantee/cost contractor as part of a pre-award review or at any time subsequent to award. At a minimum, these systems will be reviewed as part of the required annual audit of the organization. Processes and procedures should be documented through the development of manuals or policy directives that clearly state exactly how the grantee/subgrantee/cost contractor will adhere to these requirements. The adequacy of the systems may impact on future funding or result in the imposition of corrective action plans. The standards contained in this chapter form the basis for the overall financial management of ETA grant funds. Many of the subsequent chapters of this TAG are designed to

provide ETA grant operators with practical guidance on methods for developing adequate systems and complying with these Federal financial management requirements.

Chapter II-3

Cost Principles

INTRODUCTION

This chapter provides guidance to ETA-funded grantees and subgrantees on Federal cost principles that define when and how costs can be charged to grants. The material in this chapter also forms the basis for the discussion of allowable and unallowable costs found in Chapter II-4, *Allowable Costs*.

For each of the programs addressed in this TAG, the authorizing legislation provides guidance on the types of program activities that are authorized. Grantees of ETA-funded programs are generally provided wide latitude in designing programs that meet the needs of their local workforce area and comply with the requirements of the legislation and regulations.

Guidance on allowable costs is found in a series of Federal guidelines issued by OMB. These are OMB Circular A-21, *Cost Principles for Educational Institutions;* A-87, *Cost Principles for State, Local and Indian Tribal Governments;* and A-122, *Cost Principles for Non-Profit Organizations.* These documents can be downloaded in their entirety from the OMB Web site, and each grantee should have a copy of its applicable circular for ready reference. A listing of Web site addresses is provided in Appendix C. The OMB circulars are incorporated by reference at 29 CFR 95.27 and 29 CFR 97.22 and are further specified in program regulations. For commercial organizations acting either as a direct grant holder or as a subrecipient to a direct grantee, the cost principles detailed in the FAR, 48 CFR Part 31, apply. Further guidance on allowable costs is found in ASMB C-10, *Implementation Guide for OMB Circular A-87: Department of Health and Human Services,* and the nonprofit cost guide, also known as the *Indirect Cost Rate Determination Guide: Cost Principles and Procedures for Non-Profit Organizations*, U.S. DOL, Office of the Assistant Secretary for Administration and Management (OASAM).

Guidance provided in this chapter on the subject of allowable costs should in no way detract from the critical importance of continually referring to the OMB circulars on all questions of cost allowability and of the importance of being familiar with the DOL and ETA grant regulations. Even though the circulars do not address every possible cost, they are the groundwork for all grant financial management, and grantees should rely on their guidance to avoid audit findings and potential liability. An extensive familiarity with OMB circulars, coupled with a knowledge of the provisions and certifications contained in the actual grant agreement, will help grantees avoid possible audit discrepancies and will help to ensure that their ETA grant programs have the maximum impact on their communities.

FEDERAL COST PRINCIPLES

The following general cost principles, as specified in the cost circulars and regulations previously noted, must be used in determining cost allowability for ETA grants. Total allowable costs are composed of allowable direct costs and the allocable portion of indirect costs, less applicable credits.

- **Costs must be necessary and reasonable.** Any cost charged to an ETA grant must be "necessary and reasonable for the proper and efficient performance and administration" [OMB Circular A-87, Attachment A] of the grant. A grantee is required to exercise sound business practices and to comply with its procedures for charging costs. A grantee is expected to exercise the same prudence with Federal funds as an individual would with his or her own funds, asking the following questions: Do the costs incurred for administering the ETA grant appear reasonable when compared with costs incurred by the grantee for administering other Federal grant programs or non-Federal programs? Did the grantee solicit price quotations in order to compare costs?

- **Costs must be allocable.** A grantee may charge costs to the grant if those costs are clearly identifiable as benefiting the ETA grant program. Costs charged to the ETA grant should benefit only the ETA grant program, not other programs or activities. In order to be allocable, a cost must be treated consistently with like costs and incurred specifically for the program being charged. Shared costs must benefit both the ETA grant and other work and be distributed in reasonable proportion to the benefits received. They must also be necessary to the overall operation of the organization although the direct relationship to a final cost objective (ETA grant program) cannot be shown. If a grantee conducts other programs in addition to the authorized ETA grant, allocation methods should be used to determine what share of costs should be charged to the ETA grant. A common cost issue often arises regarding salary and time charged to a grant for personnel compensation. A grantee can allocate to the ETA grant only the portion of time that a person spends supporting the implementation of allowable ETA grant activities. One-Stop operations present other allocation issues that have previously been addressed in Chapter I-3, *Proportionate Share and Cost Allocation*. Further, if the grantee or subgrantee operates more than one ETA-funded grant, costs must be allocated to each funding stream based on proper allocation methods. Finally, as with direct costs, allocated costs may not be shifted to other Federal awards.

- **Costs must be authorized or not prohibited under Federal, State, or local laws or regulations.** Costs incurred should not be prohibited by any Federal, State, or local laws. For example, entertainment and alcoholic beverages are prohibited from being charged to any Federal grant program. With respect to the ETA grant programs, the specific program regulations contain several notable prohibitions. For example, 20 CFR 667.264(a)(2) prohibits spending WIA funds on public service employment activities except to provide authorized disaster relief. The costs associated with public service employment under WIA are, therefore, allowable only when part of a disaster relief project.

- **Costs must receive consistent treatment by a grantee.** A grantee must treat a cost uniformly across program elements and from year to year. Costs that are indirect for some programs cannot be considered direct ETA grant costs. A cost may not be charged to the ETA grant as a direct cost if any other cost incurred for the same purpose, in like circumstances, has been charged to another grant as an indirect cost. Chapter II-8, *Cost Allocation and Cost Pooling*, contains additional guidance on cost consistency.

- **Costs must not be used to meet matching or cost-sharing requirements.** A grantee may not use Federally funded costs, whether direct or indirect, as match or to meet matching fund requirements unless specifically authorized by law. For ETA-funded programs, this restriction applies mainly to the WtW program that requires match; the grant funds may not be used to match other Federal grant programs. While rare, an example of an authorized exception to this requirement is the Access to Jobs program funded by the U.S. Department of Transportation (DOT). This program specifically authorizes the use of WtW grant funds as match for the DOT program.

- **Costs must be adequately documented.** A grantee must document all costs in a manner consistent with GAAP. Examples include retaining evidence of competitive bidding for services or supplies and adequate time records for those employees who charge time against an ETA grant.

- **Costs must conform to ETA grant exclusions and limitations.** A grantee or subgrantee may not charge a cost to the ETA grant that is unallowable per the ETA grant regulations or the cost limitations specified in the regulations. An example of this requirement is found at 20 CFR 667.210(a)(1), which specifies that a State formula grantee may only expend five percent of the amounts allotted under Sections 127(b)(1), 132(b)(1), and 132(b)(2) of the WIA for Statewide administrative costs.

Commercial Organizations: What are the Guidelines?

As previously noted, commercial for-profit organizations may act in rare instances as either a direct ETA grantee or more likely as a subrecipient to an ETA formula grantee or competitive grantee. In those instances they are governed by the requirements found in the FAR, 48 CFR Chapter 1, Part 31. Key differences between nonprofits, governmental organizations, and commercial organizations include the following:

- Unless the commercial organization does extensive business with either the Federal or State government, it is likely to recover indirect costs as a part of the cost of its service or product.

- Payment typically is made following performance of the service (as in a fixed-price contract) or on an interim basis, if appropriate.

Chapter II-4

Allowable Costs

INTRODUCTION

This chapter provides general guidance on defining allowable costs, discusses the criteria and conditions such as prior approval, and discusses specific types of costs that have been addressed either in the OMB circulars on cost principles or in authorizing regulations. It contains the following sections:

- Cost Principles: Allowable vs. Unallowable
- Selected Items of Cost
- Specific WIA Conditions
- Attachment II-4-1—Summary of Cost Items.

COST PRINCIPLES: ALLOWABLE VS. UNALLOWABLE

The criteria contained in the OMB circulars on cost principles provide the basic guidance on determining whether costs are allowable in the ETA-funded programs covered by this TAG. It is important that grantees be aware that the OMB circulars are designed to offer guidance on determining allowability of costs and should be used as the first source of reference. It is possible that, because a circular may not make mention of an item, it does not necessarily dictate that such a cost would be automatically allowed or prohibited. The cost should be treated consistently with the standards provided for similar or related costs. If a cost is not specifically treated within the applicable circular or regulation governing allowable costs (e.g., Attachment B to OMB Circular A-87), then the general cost principles of the applicable circular or regulation are used to determine whether the cost is allowable. The cost principles are discussed in detail in Chapter II-3, *Cost Principles*.

It is important for all grantees to be familiar with OMB circulars <u>and</u> the appropriate ETA program regulations. Costs may be allowable per the OMB circulars, allowable per the circulars but with conditions, or allowable per the circulars but unallowable per the ETA regulations. Similarly, some costs are allowable but only with prior approval of either the Grant Officer (for non-formula direct grantees), or the Governor or her/his designee (for formula grantees). The following examples attempt to delineate commonly incurred costs as they would apply to a particular type of grantee or subgrantee, State or local government, nonprofit organization, institution of higher education, or commercial organization. The discussion in this chapter focuses mainly on direct costs, not indirect costs. A discussion of indirect costs takes place in Chapter II-8, *Cost Allocation and Cost Pooling*.

- **Travel.** Reasonable travel costs necessary to effectively manage the grant, provide oversight, and measure program effectiveness are allowable. Air travel, when necessary, should be obtained at the lowest possible customary standard (coach or equivalent fare). All OMB circulars treat these costs as allowable.

- **Training.** An ETA-funded grantee's professional development and training costs are allowable. Under WIA, these are also called "capacity building" costs. Consistent with the "necessary and reasonable" provision, grantees should ensure that training is relevant to the specific ETA-funded program or results in increasing the effectiveness of staff working on an ETA-funded program.

- **General Government Expenses.** Grantees should take great care to avoid charging general government expenses to an ETA-funded grant. The costs of chief executives, legislatures (including city and county councils), judiciary and prosecutors, and public safety (fire and police) are unallowable unless provided otherwise in the grant. These costs are specifically treated in OMB Circular A-87.

- **Public Outreach and Advertising.** Grantees should be very familiar with how their applicable OMB circular treats these costs. Costs associated with public outreach, community relations, or efforts to publicize the ETA-funded program(s) in order to generate participation are viewed by all circulars as allowable within certain limitations. However, any public relations costs that solely promote the organization, or are not directly related to the ETA program providing the funding, are considered unallowable. The circulars also contain specific requirements and prohibitions related to the use of advertising and advertising media. Determining the appropriateness of the cost and allowability for programs would also be a key requirement for One-Stop operations. The circulars are quite specific on the conditions under which public relations costs are allowable, and partner programs may have other restrictions in their particular authorizing legislation or regulations.

- **Interest.** Grantees should be familiar with how their respective circular addresses interest expenses, as differences exist across circulars. Generally, interest on borrowed capital is unallowable. However, interest on payments for equipment bought on time payments is allowable as a direct cost under certain conditions. Again, grantees should review the guidance in their relevant circular.

- **Pre-Award Costs.** Unless authorized in writing by the Grant Officer (for direct grantees only and to the extent they would have been allowable if incurred post-award), pre-award costs cannot be charged to an ETA grant. Pre-award costs are not authorized for formula grantees.

- **Capital Assets Costs.** Capital assets are non-current assets (assets that are not available or cannot be made available to finance current operations). Capital assets are the result of capital expenditures and include (but are not limited to) land, buildings, and equipment. Expenditures for land or building improvements as well as building and equipment repairs or maintenance expenditures that increase the value of a capital asset or increase its estimated useful life are identified as capital expenditures in Federal regulations. OMB Circular A-87,

Attachment B, Item 19, provides the guidelines on the allowability of expenditures for capital assets, guidelines on conditions, and applicable prior approval requirements. The costs of capital leases are treated in the same manner. The following are requirements for capital expenditures:

- OMB Circular A-87 requires the approval of the grantor agency for capital expenditures. This approval authority has been delegated to the States for the formula grants.
- To the extent that State procedures for State organizations are sufficient to define the allowability of ETA capital asset acquisition costs and do not inappropriately constrain non-State organizations, the State's policy is applicable to non-State governmental subgrantees.

There is similar language in OMB Circulars A-21 and A-122 related to capital expenditures.

- **Leasing.** Interest costs associated with capital leases and other lease-purchase arrangements are allowable so long as they are reasonable and allocable to the grant pursuant to the specific criteria identified in applicable OMB cost principles. Lease-purchase arrangements for real property, however, are unallowable under WIA programs. Permissible lease costs of real property are limited to operating leases, not capital leases.

- **Start-Up Costs.** Costs associated with the start-up of businesses are not considered allowable under the provisions of Section 181 (e) of the WIA. Start-up costs associated with entrepreneur training would also fall under this prohibition. This prohibition will also apply to the start-up costs of an agency that would provide services to WIA clients. However, the purchase of equipment (with appropriate prior approval) will continue to be an allowable cost. Additional examples of unallowable activities are contained in WIA, WtW, and other program regulations.

The above examples are but a few of the specific items of cost that are addressed in the OMB circulars or the program regulations. Grantees and subgrantees are urged to become very familiar with their relevant OMB circular or the FAR for commercial organizations.

Note: Prior approval authority has been delegated to the Governor for the ETA-funded formula grants. For non-formula direct grantees, prior approval authority remains with the DOL Grant Officer. For subgrantees, approval authority rests with the awarding agency.

SELECTED ITEMS OF COST

Within OMB Circulars A-21, A-87, and A-122, and within the regulations at 48 CFR Part 31, there is specific discussion of items of cost. Grantees should be familiar with these items and use them as ready references. The attached reference chart (Attachment II-4-1) is a summary of all cost items mentioned in the applicable circulars. Some of the costs were discussed in the previous section. Note that some of these costs may be indirect. Grantees should also be

familiar with the administrative cost limits as outlined in 20 CFR 667.200 et seq. for a full review of administrative costs.

Per the circulars, some items of cost require pre-approval. As previously noted, for competitive grantees the Grant Officer is the approving authority, and for formula grants the Governor or her/his designee is the approving authority.

As one can see, some items that are treated in one circular may not be treated in another. Similarly, some allowable costs are not addressed at all in the OMB circulars. In addition, some cost items require prior approval, or are allowable per the circular but unallowable by the ETA program regulations.

To the extent possible, these variations of allowability have been indicated in the attached table. Grantees and subgrantees are urged to closely consult their applicable circular and to be cognizant of their particular program requirements. The table should be a starting reference point in inquiring as to specific items of cost, not a quick reference chart.

SPECIFIC WIA CONDITIONS

In addition to the allowable cost provisions of the OMB circulars, WIA regulations contain a number of provisions related to allowable and unallowable costs and activities. These provisions are listed below:

- Any legal expenses incurred for the prosecution of claims against the government are unallowable. This includes appeals to the Administrative Law Judge of disallowed costs or other claims and civil actions where the Federal government is a defendant. [20 CFR 667.200(c)(6)]

- With four exceptions, the costs of construction or purchase of facilities are unallowable for all WIA Title I programs [20 CFR 667.260]. The exceptions are listed below:

    - To meet obligations for access and accommodation under the Rehabilitation Act of 1973, as amended, and the Americans with Disabilities Act (ADA) of 1990, as amended
    - Repairs, renovations, and capital improvements of real property, including
        - State Employment Service Agency (SESA) real property (identified at WIA Section 193), or
        - Job Training Partnership Act (JTPA)-owned property transferred to WIA Title I programs
    - Jobs Corps facilities
    - To fund construction-related disaster relief projects.

The conditions in the appropriate OMB circular or the FAR would apply to the excepted construction costs.

- WIA also prohibits certain activities. All costs associated with an unallowable activity are considered unallowable costs, regardless of their allowability under other circumstances. The prohibited activities are as follows:

    - Employment-generating activities, including economic development activities. An exception is made only for those employer outreach and job development activities directly related to participants. Employment-generating activities are addressed in 20 CFR 667.262.
    - Public service employment, except to provide disaster relief employment. [20 CFR 667.264(a)(2)]
    - The wages of incumbent employees participating in Statewide economic development activities. [20 CFR 667.264(a)(1)]
    - Employment or training programs for sectarian activities. This section does not prohibit the provision of services by faith-based organizations, unless those services are sectarian in nature. [20 CFR 667.266] [29 CFR 37.6(f)(1)]

- The regulations also prohibit the use of WIA funds for business relocation, if the relocation results in the loss of an employee's job at the original location in the U.S. The use of WIA funds for customized or skill training, on-the-job training, or company-specific job applicant assessments is prohibited for the first 120 days a relocated business operates in the new location. The regulations require that the State develop specific pre-award criteria prior to providing WIA funds to a new or expanding business to ensure compliance with this requirement. [20 CFR 667.268]

There are also specific sanctions for violations of the unallowable activities requirements. The procedures followed by the Grant Officer are discussed further in Chapter II-12, *Audits and Audit Resolution*, and are listed in 20 CFR 667.510.

Attachment II-4-1

Summary of Cost Items

KEY

NT = Not treated in circular
A = Allowable
AC = Allowable with conditions
AP = Allowable with prior approval of either the Grant Officer or Governor
U = Unallowable
A/U = Some categories within the particular activity are allowable, while some are not. Please consult respective circular for precise explanations.

Note: Some of the costs on this chart are allowable under the circulars and prohibited under WIA or other program-specific regulations. You should refer to the program-specific regulations if you have any questions on allowability of a particular cost. This chart is for reference only.

In addition, when reviewing the provisions related to selected items of cost in the OMB circulars, the cost principles applied in establishing the allowability of certain items of cost apply whether the cost is treated as a direct or indirect cost. Failure to address a particular item of cost is not intended to imply that it is unallowable. Rather, the determination of allowability in each case should be based on the treatment or principles provided for similar or related costs. Note also that, in some instances, different cost items may be similarly named, and there may be some overlap in the cost items treated by the different circulars. Again, this chart is for reference only.

	Cost Item	Circular A-21	Circular A-122	Circular A-87	48 CFR Part 31
1	Accounting systems	NT	NT	A	NT
2	Advertising and public relations	AC	AC/U	AC/U	AC
3	Advisory councils	NT	NT	A	NT
4	Alcoholic beverages	U	U	U	U
5	Alumni/ae activities	U	NT	NT	NT
6	Asset valuations resulting from business combinations	NT	NT	NT	A
7	Audit services	See A-133	See A-133	A	NT
8	Automatic electronic data processing	NT	NT	AC	NT
9	Bad debts	U	U	U	U
10	Bid and proposal costs (See also Item 65)	Item 65	Reserved	Item 65	Item 65
11	Bonding costs	NT	A	A	NT
12	Budgeting	NT	NT	A	NT
13	Civil defense costs	AC	NT	NT	A/U

	Cost Item	Circular A-21	Circular A-122	Circular A-87	48 CFR Part 31
14	Commencement and convocation costs	U	NT	NT	NT
15	Communication costs	A	A	A	NT
16	Compensation for personal services	A/U	A/U	A/U	A/U
17	Contingency provisions	U	U	U	U
18	Cost of money (See also Item 40)	U	U	U	AC
19	Deans of faculty and graduate schools	A	NT	NT	NT
20	Defense and prosecution of criminal and civil proceedings, claims, appeals, and patent infringement	AC/U	AC/U	A/U	U
21	Deferred research and development costs	NT	NT	NT	AC/U
22	Depreciation and use allowances	AC	AC	AC	AC
23	Disbursing service	NT	NT	A	NT
24	Donations and contributions	U	U	U	U
25	Economic planning costs	AC/U	AC/U	AC/U	NT/U
26	Employee morale, health, and welfare costs and credits	A	A	A	U
27	Entertainment costs	U	U	U	U
28	Equipment and other capital expenditures	A/U	AP	AP	AP
29	Executive lobbying costs	U	U	U See Item 42	U
30	Fines and penalties	U	U	U	U
31	Fund-raising and investment management costs (See also Item 40)	NT	NT	U	U
32	Gains and losses on disposition of depreciable property and other capital assets and substantial relocation of Federal programs (See also Item 64)	NT	NT	A	A
33	General government expenses	NT	NT	U	NT
34	Goods/services for personal use	U	U	NT	NT
35	Goodwill	NT	NT	NT	U
36	Housing and personal living expenses	U	AC/U	NT	NT

	Cost Item	Circular A-21	Circular A-122	Circular A-87	48 CFR Part 31
37	Idle facilities and capacity	NT	AC/U	AC/U	AC/U
38	Independent research and development	NT	Reserved	NT	AC
39	Insurance and indemnification	AC	AC	AC	A
40	Interest, fund-raising, and investment management costs	A/U	A/U	A/U	U
41	Labor relations costs	AC	AC	NT	AC
42	Lobbying	U	U	U	U
43	Losses on other sponsored agreements/contracts	U	U	U	U
44	Maintenance and repair costs	A	A	A	A
45	Manufacturing and repair costs	NT	NT	NT	A
46	Manufacturing and product engineering costs	NT	NT	NT	A
47	Material costs	A	A	A	A
48	Meetings and conferences	NT	A	See Item 2	See Item 2
49	Memberships, subscriptions, and professional activity costs	A/U	A/U See also Item 2	A/U See also Item 2	NT
50	Motor pools	NT	NT	A	NT
51	Organization costs	NT	AP	NT	U
52	Other business expense	NT	NT	NT	A
53	Overtime, extra-pay shift, and multi-shift premiums	NT	AC	AC	See also Item 16
54	Page charges in professional journals	NT	A	NT	NT
55	Participant support costs	NT	A	NT	NT
56	Patent costs	A	A/U	NT	A/U
57	Plant protection costs	NT	NT	NT	A
58	Plant reconversion costs (See also Item 68)	NT	NT	NT	U
59	Plant security costs	U	A	NT	NT
60	Pre-agreement costs (See also Item 61)	U	NT	NT	NT
61	Pre-award costs	NT	AP	U (formula)/AP	NT
62	Pre-contract costs (See also Item 61)	NT	NT	NT	AP
63	Professional services costs	A	A	A	A
64	Profits and losses on disposition of plant equipment/other capital assets	A	A	See Item 32	See Item 32

	Cost Item	Circular A-21	Circular A-122	Circular A-87	48 CFR Part 31
65	Proposal costs (See also Item 10)	AC	Reserved	AC/AP	AP
66	Publication and printing costs	NT	A/U	A	NT
67	Rearrangement and alteration costs	A	A	A	NT
68	Reconversion costs (See also Item 58)	A	A	A	NT
69	Recruiting costs	A/U	A/U	See Item 2	A
70	Relocation costs	AC	AC	NT	A/U
71	Rental costs of buildings and equipment	AC	AC	AC	AC
72	Royalties and other costs for use of patents	A	A	NT	A
73	Sabbatical leave costs	A	NT	NT	NT
74	Scholarships and student aid costs	A	NT	NT	NT
75	Selling and marketing	U	U	NT	A/U
76	Service and warranty costs	NT	NT	NT	A
77	Severance pay	AC	AC	AC	AC
78	Special tooling and special test equipment costs	NT	NT	NT	A
79	Specialized service facilities	AC	AC	NT	NT
80	Student activity costs	U	NT	NT	NT
81	Taxes	AC	AC	AC	AC
82	Termination costs	NT	AC	NT	A/U
83	Trade, business, technical, and professional activity costs	AC	AC	AC See also Item 49	AC
84	Training and education costs	AC	AC	AC	AC
85	Transportation	AC	AC	NT	AC
86	Travel costs	AC	AC	AC	AC
87	Termination costs applicable to sponsored agreement (See also Item 82)	AC	NT	NT	NT
88	Trustees	AC	AC	NT	NT
89	Under recovery of costs under Federal agreements	U	U	U	U

Chapter II-5

Cost Classification

INTRODUCTION

This chapter provides guidance on the proper classification of costs to the ETA-funded programs covered by this TAG, discusses the administrative cost limitations applicable to WIA Title I programs, and addresses the use of a chart of accounts in cost classification. It contains the following sections:

- Cost Categories and Activities
- Administrative Costs and Limitations
- Other Guidance.

Attachment II-5-1 to this chapter provides a sample chart of accounts to assist grantees and subgrantees with the proper classification of costs. It should be noted that the sample chart is not required of ETA program operators, but it does provide an example of how the various cost categories and objectives associated with an ETA-funded program might be classified.

COST CATEGORIES AND ACTIVITIES

Cost classification is described in the OMB circulars as the process used to assign costs to benefiting cost objectives—either the ultimate objective or interim objectives—which then are usually allocated on some basis of benefit to the ultimate objective. In the ETA-funded programs, the ultimate cost objectives that may receive costs are the ETA-funded grant (with its corresponding year of appropriation) and the cost categories (as applicable). However, in order to comply with the reporting instructions under many of the grants, it will be necessary for the grantees and subgrantees to identify costs by a number of other cost objectives such as the individual program activities. This may be done through classification in the accounting system or through a linking spreadsheet that links the accounting system to the Federal reports. If a linking spreadsheet is used, a clear audit trail must exist between the official books of account and the Federal reports.

WIA Title I Cost Categories

There are only two cost categories for the WIA Title IB grants. These are Administration and Program Activities. In this sense, the accounting for WIA programs is much less complex than other grants such as WtW or the earlier JTPA program. It should be noted, however, that most programs will want to account for the costs by additional activities or cost objectives in

order to better plan and assess the effectiveness of program activities. For example, a Local Workforce Investment Board (LWIB) may want reports on the costs of providing specific activities or services such as core services vs. intensive services, or the amounts spent on individual training accounts (ITAs). To determine the proper classification of costs within the agency's books of account, the organization must determine the extent to which these reporting categories will also be separate classifications within the chart of accounts. In any case, each organization must have a system to trace costs from the Federally required reports to the official books of account and source documentation.

While there are only two cost categories, the number of reporting categories may be larger. Thus, the number of necessary cost objectives increases. The reporting formats for WIA Title I programs indicate that an organization must also report program income, both earned and expended, as well as the non-Federal costs of each program. Grantees should carefully review their systems for charging costs to ensure that all the cost activities may be adequately accounted for and that the costs reported on the applicable quarterly Federal expenditure reports (e.g., Quarterly Financial Status Report (QFSR)) are traceable to both the accounting system and source documentation. The reporting requirements applicable to WIA programs are addressed more fully in Chapter II-9, *Financial Reporting*.

Additional reporting categories must be addressed as part of the cost classification system for the WIA Title ID Native American and Farmworker programs and Title IB Youth programs. For these programs, the ETA also requires costs to be reported by program activities such as employment services or assistance, or summer activities. Cost classification requirements for Native American programs are addressed in 20 CFR 668.830 and for the NFJP programs at 20 CFR 669.550. In addition, Title IB Youth programs must report costs by the eligibility categories of in-school and out-of-school youth in order to assess compliance with the requirement of 20 CFR 664.320 that a minimum of 30 percent of the funds be expended on services to out-of-school youth. Any cost classification system must account for these variations in the individual programs.

Non-WIA Programs

For the non-WIA programs covered by this TAG, the cost classification system must be sufficient to trace Federally required reports to source documentation. The system must also be in accordance with GAAP. Costs for other ETA-funded programs must be classified by funding sources and cost objective. There are no cost categories in the WIA sense for Wagner-Peyser or for Unemployment Insurance (UI) programs. Grantees are cautioned, however, that they must either account for reporting categories within the cost classification system or utilize a linking spreadsheet to account for costs by reporting category.

The Trade Act and NAFTA programs report training and administrative expenditures using the ETA 9023. This same format is used by the Trade Act and NAFTA programs to request obligational authority. Unlike the SF 269, the format requires that the training funds be broken out between job search/relocation and training activities. The administrative expenditures are reported separately as well. As a result, grantees must have a system that either

classifies the costs by reporting activity/cost category or utilizes a linking spreadsheet to report the costs by the appropriate Trade Act/NAFTA category.

The WtW program reports expenditures on the ETA 9068. This report format has a number of reporting categories related to program services, and the costs must also be broken out by the participant eligibility categories. The reporting for the WtW program is much more complex than for the other ETA-funded programs and, again, grantees must either classify costs within the accounting system by the reporting categories or must document the link between the expenditure reports and the books of account.

ADMINISTRATIVE COSTS AND LIMITATIONS

WIA Title IB Formula Grants

Administrative costs are limited in the WIA program to a maximum of 10 percent of the total program year allocation at the local level and 5 percent of the amount allotted at the State level for formula grantees. [20 CFR 667.210(a)] While allotted and allocated by the funding streams of Adult, Dislocated Worker, and Youth programs, neither the State nor the local level administrative costs need be tracked by, reported, or allocated back to the particular funding streams. [20 CFR 667.210(a)(3)] The reporting formats discussed in Chapter II-9, *Financial Reporting*, are structured to reflect these combined funding streams. Cost limitations are measured at the end of the grant period by comparing the total reported administrative expenditures to the amount available for administration. If administrative costs exceed the maximum limitation, the amount in excess of either the 5 percent for State administration or the 10 percent available for local administration becomes a disallowed cost and is subject to repayment.

> **Example:** The State allotment for WIA Title IB funds is $1,000,000 for Adult programs, $500,000 for Youth programs, and $750,000 for Dislocated Worker programs, for a total Title IB allotment of $2,250,000. Of this amount, 5 percent of each allotment ($50,000 plus $37,500 plus $25,000, for a total of $112,500) is available for administrative costs at the State level.
>
> **Example:** A Local Workforce Investment Area (LWIA) receives the following Title IB allocations: $200,000 for Adult programs, $50,000 for Youth programs, and $125,000 for Dislocated Workers, for a total allocation of $375,000. Of these amounts, the LWIA has 10 percent of each allocation ($20,000 plus $5,000 plus $12,500, for a total of $37,500) available for administration.

WIA Title ID Programs

The administrative cost limitation applicable to the INA program and the NFJP are negotiated and contained in the individual grant agreements. The definition of administrative costs is the same for the Title ID programs as other WIA programs and is discussed further in this chapter.

Non-WIA Programs

The amounts available for grant administration activities for the non-WIA grants covered by this TAG will vary. Where there are no statutory limitations on administrative funds, grantees may be subject to limitations contained in the grant agreements. Some of the programs, such as UI, have complex formulas for determining the amount of funds available for administrative activities. Grantees are urged to review their particular grant agreement for specifications. In classifying administrative costs, grantees and subgrantees should remember the concept of direct benefit to clients. Costs that cannot be associated directly with provision of client services, including oversight and management functions, should be considered as administrative costs and subject to the limitation.

Other programs, such as the WtW program, are also governed by statutorily imposed administrative limits. The WtW program uses the same definition of administrative costs as the WIA program as discussed in this chapter. The limits, reporting, and classification requirements are addressed in greater detail in the WtW Financial Management TAG dated June 5, 1999.

WIA Title I Administrative Cost Definition

The regulations define administrative costs at 20 CFR 667.220(a) as the allocable portion of the costs associated with specific functions and not related to the "direct provision of workforce investment services, including services to participants and employers." The administrative functions are specified to include the following:

- General administrative functions such as accounting, financial and cash management, procurement, property management, personnel management, and payroll
- Audit functions and those duties associated with coordinating the resolution of findings originating from audits, monitoring, incident reports, or other investigations
- General legal services
- Oversight and monitoring of administrative functions
- Goods and services used for administrative functions
- Developing systems, including information systems, related to administrative functions
- The costs of awards made to subrecipient or vendor organizations for administrative services of the awarding agency (for example, a payroll service for staff or participants).

The intent of these regulations is quite clear and provides relief to WIA grantees, as the prior definition of administration under the JTPA programs no longer applies. Only those costs directly associated with the administrative management of the programs will be considered as being classified to the WIA administrative cost category. Unlike JTPA, planning is not considered an administrative cost, nor are the costs of performance tracking. Many cost objectives that would traditionally be considered administrative in nature are exempted from classification to the WIA administrative cost category. The regulations further specify that the costs of information systems related to participant and performance information are to be

charged to the program cost category. Grantees are urged to carefully review the list included in the regulations and revise their WIA cost classification system as needed. If a grantee operates both a WIA grant and a non-WIA grant such as Temporary Assistance to Needy Families (TANF), additional coding on the chart of accounts may be needed to differentiate between the two programs.

The regulations also specify the level within the WIA program subject to the administrative cost definition. Administrative costs are accumulated and reported only by State and local boards, direct recipients (i.e., the State or a Title ID grantee), the local grant recipient or subrecipient (i.e., the LWIA), the fiscal agent for a local area, and the One-Stop operator. [20 CFR 667.220(a)] If the local area makes an award to a vendor for an administrative function such as developing a procurement system, then the vendor costs are classified as administrative. With the exception of the aforementioned type of administrative contract, all awards to vendors and subrecipients are considered program costs and would be reported in the program cost category, even if associated administrative costs are included in the total costs.

> **Example:** A Title ID NFJP grantee makes an award for the provision of related assistance payments to participants. All costs associated with the award are considered program costs.
>
> **Example:** An LWIA makes an award to a certified public accountant (CPA) firm to perform financial monitoring of subrecipients. The costs of the award would be classified as local administration.
>
> **Example:** An LWIA makes an award to a nonprofit organization as the One-Stop operator. The nonprofit organization must classify the costs associated with the operation of the One-Stop center as both program and administration. The administrative costs of the nonprofit would be only those costs listed in 20 CFR 667.220(b). **Caution:** Should the nonprofit organization also receive WIA funds as a service provider at the One-Stop, it must classify these costs as both administrative and program. If an organization is designated as a One-Stop operator or is part of a consortium developed to operate the One-Stop center, then it is the nature of the organization that determines whether the costs must be classified as administrative or program, not the nature of the award. [20 CFR 662.400(c)]

Other Administrative Cost Guidance

The definitions of administrative and program costs contained in the WIA regulations at 20 CFR 667.220(b-c) are applicable to all WIA-funded programs. The final regulations for the WtW program have adapted this definition for usage with the WtW program as well.

Only the following Title IB entities will incur costs that are to be reported as administrative costs:

- The State (as the grant recipient)
- The State Workforce Investment Board
- The Local Workforce Investment Board (LWIB)
- The local grant recipient
- A local grant subrecipient and/or fiscal agent whose purpose is to assist in the administration of grant funds
- The local One-Stop operator. [20 CFR 667.220(a)]

OTHER GUIDANCE

Job Title vs. Job Function

Staff and related costs should be classified against the appropriate cost category or program activity based on the job duties actually being performed. If staff members perform duties related to more than one category or activity, then the costs should be allocated on the basis of actual time worked or another equitable method. [20 CFR 667.220(c)(2)]

> **Example:** A One-Stop center director spends four to six hours every week providing mentoring services to WIA Title I participants. The director's salary and fringe benefits are classified as administration and program services based on a time sheet prepared on a biweekly basis. If the center director's time is wholly classified as administration, a time sheet would not be required; however, the job description should be sufficiently detailed to serve as documentation for the classification. **Note:** A job description alone would not be sufficient to support the personnel compensation costs. Both OMB Circulars A-87 and A-122 contain requirements for activity reports or periodic certifications. These requirements are also addressed in Chapters II-4, *Allowable Costs* and II-8, *Cost Allocation and Cost Pooling*.

Vendor-Level Cost Classification

Due to of the nature of the goods and services they provide, vendors are not normally expected to break out their invoices by program activity or cost category. Recipients and subrecipients, however, must classify the costs of the goods and services procured from vendors. There may be some instances in which a vendor provides services that may be charged to more than one activity/category, and the grantee must classify the costs properly. In these instances, the recipient/subrecipient must establish an appropriate reporting or invoicing arrangement to properly classify the costs. The establishment of appropriate reporting/invoicing is also critical to the recipient classifying the costs by the appropriate participant eligibility category. Appendix E contains a listing to assist grantees in distinguishing between subrecipients and vendors.

Example: The contract between an LWIA and the vendor includes both youth and adult support services. Clearly, two separate activities are being provided, and the vendor serves both youth and adult participants. The invoicing arrangement between the vendor and the grantee must clearly delineate the services provided, the costs of each, and the costs by type of participant in order for the grantee to comply with ETA reporting and compliance requirements.

Indirect Costs

Indirect costs are defined in the OMB circulars and related regulations as those costs incurred for a common or joint purpose, benefiting more than one cost objective, and not readily assignable without a disproportionate effort. Indirect costs are usually recaptured through the application of an indirect cost rate, and the costs are usually accumulated within the organization in an indirect cost pool.

For most organizations, the indirect cost pool includes costs associated with a number of functions/activities that are not administrative costs under the WIA definition. The following is the methodology for determining the portion of indirect costs chargeable to administration and program under cost categories for any given WIA program.

1. Review all the costs included in the indirect pool and label them as program or administrative costs based on the WIA definition.
2. Calculate the proportion (percentage) of total costs for each of the two categories.
3. Calculate the total dollar amount of indirect costs attributable to the particular WIA program (i.e., apply the negotiated indirect cost rate to the specified base).
4. Apply the percentages calculated in Step 2 to the total dollar amount of indirect costs to establish the dollar amount that is to be recorded/reported as administrative costs and the amount that is program costs for that particular program.

Examples of costs that may be both administrative and program costs might be the director's time and associated costs and space and occupancy costs. Examples of costs that might be administrative under some programs, and therefore included in the indirect cost rate and program costs under WIA, would include oversight and planning costs.

Chart of Accounts

A chart of accounts is a listing, usually numerical, that provides an organization with the proper codes against which to charge costs in the general ledger and to then report the financial results of operations. There is not a preferred or a best way to develop a chart of accounts to use in the classification and posting of costs to a general ledger or accounting system. Each organization must determine the various types of costs within the organization, not just the ETA costs, and develop a chart of accounts that permits the organization to accumulate and track costs in the most efficient and effective manner possible. However, all charts of accounts should include at least the following classifications: funding sources, cost objectives (such as salaries), and program activities (as necessary to report results).

In developing a chart of accounts, an organization must address the level of detail required by Federal reporting requirements, cost principles, auditing standards, and organizational needs such as planning and evaluation. In order to accurately classify costs, the index must provide for the identification of:

- Sources of funds (e.g., WIA Adult, WtW, foundation funds, State programs, etc.).
- Cost objectives (e.g., salaries, FICA, insurance, telephone, rent, etc.). Cost pools (for example, an administrative cost pool or a case manager's cost pool) would also be identified.
- Program activities or cost categories. Examples include vouchers or ITAs for training services, administration, assistance.
- Related cost objectives such as program income expended, etc.

An example of a chart of accounts is shown in Attachment II-5-1 to this chapter.

Attachment II-5-1

Sample Chart of Accounts

As has been previously stated, there is no single method for developing a chart of accounts to use in classifying costs in the grantee's accounting system. The chart provided in this attachment represents one method of coding costs for the WIA Title IB Adult program. It is not the only way in which costs may be classified, is not a prescribed system, and is presented for illustrative purposes only. Grantees are urged to develop their own specific organization's chart of accounts based on funding, grant and organizational needs, cost principles, and GAAP requirements.

The sample chart of accounts utilizes a four-level coding system. Each of the levels is identified, and examples of the appropriate codes for each level have been provided. These levels and their specific codes could be expanded as necessary to cover all the different costs of an organization.

Level 1 - Funding Sources (2 digits)

10	WIA Title I – Adult
20	WIA Title I – Dislocated Workers
25	WIA Title I – Dislocated Workers Rapid Response
30	WIA Title I – Youth
40	WIA Title I – Administration
50	WIA Adult (State project)
90	State general funds
60	Miscellaneous receipts

Level 2 - Participant Type (1 digit)

1	Adult
2	Dislocated Worker
3	Youth
4	WIA non-assigned
5	Non-WIA clients
6	WIA Youth Out-of-School
7	WIA Youth In-School
0	Not applicable

Level 3 - Activity or Cost Category Code (3 digits)

100	Administrative
110	Administrative cost pool
200	Program activities
210	Core services
220	Work experience (Youth)

230 Intensive services
240 On-the-job training
250 Classroom (post-secondary) training
260 Job placement services
270 Supportive services
275 Child care
300 Individual development accounts
400 Intake, assessment, and eligibility determination
500 Case management
600 Case management pool
700 Intake pool
000 Unassigned or not applicable

Level 3A - Service Provider/Subgrant Code (1 digit)

1 Subgrant award
2 ITA
3 Contract
4 Direct payment
0 In-house or not applicable

Level 4 - Object Account or Expenditure Accounts (3 digits)

100 Staff wages
120 Staff fringe benefits
130 Staff morale/welfare
140 Staff training and education
150 Staff travel
200 Office supplies
300 Equipment
310 Computer hardware
320 Office furniture
330 Equipment leases
340 Other equipment purchases
400 Outside services
410 Legal services
420 Consultant and professional services
430 Communications
435 Telephones
440 Disbursing and payroll services
500 Miscellaneous costs
510 Insurance (non-staff related)
515 Participant insurance
520 Building space lease
525 Utilities
530 Miscellaneous computerization

540 Advertising
550 Memberships and subscriptions
600 Printing and duplication
700 Participant costs
720 Participant wages
730 Participant fringe benefits
740 Support services, i.e., child care, etc.
000 Not applicable (describe why)

Example: The cost of child care services provided to an individual WIA adult participant may be coded as 50-1-275-4-740. This would equate to a cost for participant support services paid through a direct payment to the vendor for the program activity of supportive services on behalf of a WIA adult participant. The cost is funded by a WIA Title IB Adult grant from State set-aside funds.

In order to have an adequate chart of accounts, each of the above codes should be defined, with examples of the cost and the documentation requirements for each. In this way, the chart of accounts provides internal controls over the charging of costs and serves as documentation for allowable costs and for auditors when they trace costs from the Federal reports to the official books of account. Listed below are just two examples of this description and documentation. The same process should be completed for each classification code on the final chart of accounts.

Example: 150 Staff Travel. This includes all transportation, subsistence, and arrangements related to staff travel on official business, including training conference costs, staff workshops, and costs for meals and related items that are incurred by employees who are in travel status on official business. Costs may be charged on an actual basis or on a per-diem or mileage basis in lieu of actual costs. Costs of entertainment, travel not related to the specific authorized purpose, and alcoholic beverages are not chargeable. For use of a private vehicle, the employee must provide documentation that minimum insurance has been obtained.

Documentation requirements include copies of a mileage log maintained by the employee, travel authorizations, receipts, and vendor invoices.

Example: 200 Office Supplies. The costs of materials and supplies necessary to carry out the objectives of the program are allowable costs. Supplies are defined and managed in accordance with the requirements of 29 CFR 95.35 and 95.2(11). Purchases are charged at their actual prices after deducting all cash discounts, trade discounts, rebates, or allowances. Shipping and delivery are a normal part of the cost of supplies.

Documentation requirements include copies of paid receipts, paid vendor invoices, or supply documentation, if no outside vendor is used.

Chapter II-6

Cash Management

INTRODUCTION

This chapter discusses State-level cash management, describes the cash management requirements for non-State grantees and subgrantees, and provides guidance and suggestions on efficient and effective cash management below the State level.

This chapter contains the following sections:

- State-Level Cash Management
- Cash Management at the Grantee (Non-State) Level
- Cash Management at the Subrecipient Level
- Additional Cash Management Considerations
- Attachment II-6-1—Funding Techniques under the Cash Management Improvement Act (CMIA).

What the Regulations Require

The regulations governing payments are found at 29 CFR 97.21 and 29 CFR 95.22. The two regulations are substantially the same and are summarized as follows:

- The time between receipt and disbursement of funds should be minimal.
- Grantees and subgrantees are to be paid in advance, provided they comply with certain requirements.
- Reimbursement is the preferred method of payment if the above standard is not met.
- To the extent possible, funds should be deposited in minority- or women-owned banks.
- Funds are to be held in an insured interest-bearing account (29 CFR 95.22).
- Interest earned on Federal funds is remitted according to OMB circular requirements. For WIA Title I programs, interest is treated as program income.

STATE-LEVEL CASH MANAGEMENT

States are subject to the cash management regulations at 31 CFR Part 205 in addition to the requirements of 29 CFR 97.21. The 31 CFR Part 205 regulations implement the CMIA of 1990. The purpose of the CMIA is to make the process of transferring funds between States and the Federal government more equitable and efficient. Attachment II-6-1 explains more about funding techniques under CMIA.

Subpart A of Part 205 establishes requirements for cash transfers between the States and the Federal government for certain Federal programs listed in the regulation as well as other major Federal programs as determined from State single audit data and other data as necessary. Subpart A establishes the methods to be used and the requirements to be followed in programs covered by the CMIA. These specific methods are contained in a Treasury-State agreement negotiated between the U.S. Department of the Treasury (Treasury Department) and each State. Coverage of each ETA-funded program under Subpart A provisions is wholly dependent upon the individual State thresholds of materiality for the identification of major Federal assistance programs.

Subpart B of Part 205 establishes requirements for Federal financial assistance programs involving the States that are not subject to Subpart A requirements. State grantees should contact their respective State treasurers to determine the extent of any coverage of the ETA-funded grant under CMIA. The State treasurer will then determine the appropriate funding mechanism to be used to comply with the CMIA requirements.

Should the WIA funds be covered under the CMIA, grantees will need to use the Catalog of Financial Domestic Assistance (CFDA) numbers to identify the WIA funds. These identifying numbers are:

Adult funds: 17.258
Youth funds: 17.259
Dislocated Workers/National Emergency Grants: 17.260

CASH MANAGEMENT AT THE GRANTEE (Non-State) LEVEL

While Governmental agencies are required to follow 29 CFR 97.21 cash management requirements, institutions of higher education (not a part of State government), hospitals and other nonprofit organizations, and commercial entities are bound by the cash management requirements of 29 CFR 95.22. Section 29 CFR 97.21(c) provides that grantees and subgrantees are to be paid on the advance method, provided they have a system in place to minimize time elapsed between receipt of Federal funds and actual disbursement. Section 29 CFR 95.22(b), applicable to nongovernmental grantees, states that, in order to be paid on an advance basis, recipients and subrecipients must maintain a financial management system in accordance with the requirements of 29 CFR 95.21 and have written procedures to ensure that the time elapsing between receipt of funds and disbursement is minimized. If the grantee is either unwilling or unable to comply with the required cash management standards, then the reimbursement method of payment must be used. [29 CFR 95.22(e)] Part 95 also encourages the use of minority- and

women-owned banks. Funds must be maintained in interest-bearing accounts unless the grantee meets the conditions listed at 29 CFR 95.22(k)(1-3). Grantees may also use the method of working capital advances to provide funding. Use of this method is further discussed later in this chapter.

In addition, 29 CFR 95.22(h) states that payments may not be withheld from grantees unless the grantee has either failed to comply with conditions of the grant award or has a delinquent unpaid debt with the Federal government.

The conditions stated at 29 CFR 95.22 apply equally to recipients and subrecipients as appropriate. A number of mechanisms such as zero balance accounting or estimated/average clearances (discussed in Attachment II-6-1) may be used by grantees to ensure compliance with the standard at 29 CFR 97.21(b). If the grantee is unwilling or unable to comply, then the reimbursement method must be used.

The U.S. Department of Health and Human Services (DHHS)-Payment Management System (PMS) is used by DOL to allow grantees to draw down the cash needed to funded allowable costs. The use of electronic funds transfer (EFT) and the PMS for direct grant drawdowns has substantially reduced the time needed to receive cash. With PMS, cash requested by 2 p.m. Eastern Standard Time (EST) is deposited in the requesting agency bank account the next day. Cash may be requested daily. The ETA believes that grantee cash on hand should be limited to the amount needed for immediate disbursement.

CASH MANAGEMENT AT THE SUBRECIPIENT LEVEL

There are no Treasury Department cash management rules below the State level or for programs not covered by the Treasury-State agreement. As stated previously, the cash management requirements at 29 CFR 97.21 and 95.22 apply at this level. Grantees are responsible for developing and maintaining systems for payment to subgrantees. The following are cash management issues that should be addressed in developing a subrecipient payment system.

Cash on Hand Should Be Used Before Asking for More

Any cash available for disbursement for ETA-funded program purposes, whether from drawdowns, program income, rebates, etc., is considered to be ETA-funded grant cash on hand and should be used by the recipients or subrecipients before they request additional funds. Even if the program income is not spent until a later date, the cash associated with that program income must be disbursed before additional cash is requested. The cash proceeds from earned program income should be used immediately for whatever ETA-funded grant disbursement needs exist. Recipients and subrecipients should not leave cash resulting from earned program income sitting idle in a bank account. Chapter II-7, *Program Income*, contains more information.

As stated above, the use of EFT and the PMS for direct grant drawdowns has substantially reduced the time needed to receive cash. Grantees should impose similar requirements on their subgrantees to the extent possible. The ETA believes that cash on hand should be limited to the amount needed for immediate disbursement at all levels of the program.

Rules Intended to Minimize Subrecipient Cash on Hand

The ETA requires that subrecipients obtain funds from their awarding agency as needed for disbursement. Transfers of cash from an awarding agency to a subrecipient should conform to the same standards of timing and amount as set forth for transfers from Federal agencies to recipients, as is required by both 29 CFR 97.21 and 95.22. To receive cash advances, subrecipients must demonstrate that they will maintain procedures that support Federal cash management requirements. These procedures are necessary to effectively minimize cash on hand at the subrecipient level and to allow for the expeditious transfer of cash. Subrecipients are encouraged to use zero balance accounting, estimated clearance, or average clearance cash management techniques as described in Attachment II-6-1 to this chapter. Where these techniques cannot be used, the subrecipient should justify any alternative arrangement, such as pre-issuance funding. It is recommended that recipients also provide advance payments to subrecipients via EFT whenever possible.

Limit Cash Advances

Subrecipients should limit cash advances to the minimum amounts needed and should time their advances to meet actual immediate cash needs. As cash distribution policies and practices vary from organization to organization, it is not possible to specify one time period against which all subrecipient cash balances can be measured to determine if the requirement of "immediate cash needs" has been met. Cash should not be requisitioned for delivery before the last day it can be received for timely payout through a given organization's cash disbursement process.

The following examples help to illustrate the point. In them, an LWIB is part of an organization that requires cash in its checking account before writing or releasing checks. The reader must adjust the time frames in the examples for organizations with procedures that allow for receiving cash after checks have been written and released.

> **Example:** The State requires the LWIB to order cash for delivery every Tuesday. The LWIB disburses its employee payroll every other Thursday. The LWIB should not order cash to meet its payroll until the Tuesday immediately before the Thursday on which the payroll is disbursed.

> **Example:** The State allows the LWIB to requisition cash for delivery on all working days. An LWIB disbursing a payroll on Tuesday should order cash for delivery on Monday, not on the preceding Friday.

Monitoring Subrecipient Cash Management Practices

The following factors have an impact on the ability of subrecipients to effectively manage cash and should be incorporated into monitoring the payment systems of subrecipients:

- Grantee policy and procedures that the subrecipients must use to obtain cash
- Any legislative, procedural, or regulatory requirements with which the subrecipient must comply as a part of a larger organization
- The services available to the subrecipient from the banking industry in its locality
- The cost of such services in comparison to potential interest savings if such services are used.

A subrecipient operating in a restrictive environment that does not permit utilization of the best cash balance minimization techniques could not be criticized, whereas a subrecipient who elects not to practice good techniques should be criticized.

The second area on which subrecipients should focus is performance. Every organization should develop the best possible cash management procedures, and each should be evaluated in terms of how it actually performs within the given environment. A recipient's evaluation of a subrecipient should include the following questions:

- Is the subrecipient keeping its average daily balance of cash on hand to the minimum that can be maintained using the recipient's cash management procedures?

- Is the subrecipient minimizing cash balances as much as possible using the procedures that it has selected to use?

Timing Disbursements to Improve Cash Management

Grantee or recipient disbursement cycles and payment policies for subrecipients can be weekly, biweekly, or on some other cycle. To improve cash management, subrecipients should time their projected clearance patterns to coincide with the receipt of cash from the grantee. The following is one example of cash management procedures.

Day	Action	Clearance Pattern (%)
1	Subrecipient issues checks	-0-
1	Subrecipient requests cash	-0-
2	Recipient moves cash by EFT and it is deposited in subrecipient account; checks clear	60
3	Checks clear	20
4	Checks clear	15
5	Checks clear	5

Cash Advances Based on Disbursement Cycles

This section discusses how to manage cash effectively based on grantee and subgrantee disbursement cycles. Projections and timing are important for good cash management in an environment absent EFT—where cash is requested by the subgrantee, processed by the grantee treasurer, and mailed to each payee. As a general rule, subrecipients should use clearance dates rather than dates of disbursement to determine cash needs.

The following scenarios suggest best practices where the objective is to adjust, where possible, disbursement cycles to coincide with the receipt and payout of cash. For these scenarios, the following assumptions are made about disbursement cycles:

- The grantee disburses cash each Friday.
- The subgrantee payroll is biweekly. All other nonpersonnel services costs, including advances to contractors, coincide with payroll payment activity.
- It takes two weeks from the time a cash request is submitted until the subgrantee receives a check.

Scenario 1 (Fixed Disbursement Cycle). Specific dates of the week or month are preselected for check disbursement by the grantee and subgrantee. In such events, the subgrantee should not request cash in excess of the amount needed for payout purposes for a specific time period, such as weekly. This scenario affords administering agencies minimum flexibility with timing.

Scenario 2 (Subgrantee Flexible Disbursement Cycle). The grantee processes one weekly cash request from each subgrantee. The time lapse between a cash request submitted by the subgrantee and deposit in the subgrantee's account is 12 days. The subgrantee can control the disbursement cycle by scheduling payables or check release dates.

In this scenario, the subgrantee disbursement cycle can be adjusted for the 12-day turnaround time for receiving cash from the grantee. The subgrantee is controlling payables and timing of payments to coincide with the receipt of cash from the grantee. The receipt of cash and payout at the bank should be timed to occur simultaneously.

Scenario 3 (Subgrantee and Grantee Flexible Disbursement Cycles). The subgrantee is on a five-day ongoing disbursement cycle. There are no restrictions on the number of cash requests a subgrantee can submit to the grantee. The grantee processes cash requests on an ongoing 10-working-day disbursement cycle.

This scenario allows the subgrantee to plan daily cash disbursements to coincide with daily cash receipts. The subgrantee also can schedule payables for specific dates to improve cash management efficiency.

Cash Forecasting Considerations

Net Payroll/Payroll Taxes/Fringe Benefits. Net payroll, not gross salaries and wages, should be used for cash forecasting purposes. Normally, payroll deductions and tax deposits are disbursed at different times from the payroll dates. Fringe benefits such as retirement, medical, Federal Insurance Contributions Act (FICA), and Worker's Compensation are also normally paid in a period different from the corresponding payroll dates. In many agencies, fringe benefit costs are paid in advance by the employing agency and subsequently allocated back to the various departments on a quarterly basis. In such instances, cash should not be requested until the actual disbursement dates for items such as payroll tax and fringe benefit costs.

Accrued Expenses. Accrued expenses often will exceed cash disbursements. Cash is not needed to accommodate an accrual until the check written to pay an invoice is paid out by the bank.

Obligations. Incurring an obligation does not require cash. Cash is needed only when checks written against those obligations are presented at the bank for clearance, or when payment warrants are issued. The method would depend on local requirements.

Reimbursement Method

As stated in 29 CFR 97.21 and 29 CFR 95.22, reimbursement is the method of payment to be used when the subrecipient is unwilling or unable to comply with the specified cash management practices. Under this method, payment is made after the costs have been incurred and a request for repayment has been submitted to the awarding agency.

Working Capital Advance Method

Working capital advance is the method for advancing funds to the subrecipient to cover its estimated disbursement needs for a given initial period, and then providing reimbursement payments for subsequent periods. This method would not be used for subrecipients that qualify for advances. However, this method can be used in place of the reimbursement method if the recipient determines that the subrecipient lacks sufficient working capital.

The amount of the initial advance should be geared to the subrecipient disbursement cycle. After the initial period, the payments are approximately equal to the subrecipient's unreimbursed program payments. After the initial advance, the awarding agency reimburses the subrecipient for its actual cash disbursements.

Generally, working capital advances can be made only when the advance method of payment is not available and when based on regulations and guidelines affecting the amount.

The following example shows how working capital advance payments are processed and presents other considerations.

Example: The grantee's policy is to limit working capital advances to the first week of disbursement needs. A subrecipient submits a schedule of disbursements to be paid out during the first week of operation. The total amount of the contract is $136,000. The maximum limit on a working capital advance in this example is $22,700 (cash needs for one week). An example of a disbursement schedule to determine the amount of working capital advance is as follows:

Staff salaries	$12,500
Insurance	1,000
Rent	800
Equipment rental	4,800
Office supplies	400
Training materials	3,200
Working advance	$22,700

After a working capital advance is issued, the subrecipient would be reimbursed for its actual cash disbursements. This advance is a one-time process designed to facilitate the start-up of projects that need and qualify for an advance. Working capital advances must also be liquidated to ensure that excess cash is not maintained by the subrecipient. The method of liquidation may be specified by the awarding agency, provided that all advances are liquidated in a manner designed to minimize actual cash on hand at the subrecipient level. Some methods that might be used are reducing subsequent requests on a pro rata basis or reducing the first request by the amount of the advance.

This method cannot be used if the reason for using it is the unwillingness or inability of the awarding agency to provide timely advances to the subrecipient to meet its actual cash disbursements. If an awarding agency is reluctant or unwilling to implement efficient and speedy cash management procedures, the agency is disqualified from making working capital advances.

ADDITIONAL CASH MANAGEMENT CONSIDERATIONS

Interest

The interest earned on cash drawn down for WIA Title I grants is considered program income. A more detailed discussion of the interest requirements for WIA Title I programs is found in Chapter II-7, *Program Income*. For all other programs, interest is treated as follows:

Interest earned by States (for example, Wagner-Peyser Funds) is governed by the Treasury-State agreement and remitted as part of overall State cash management practices.

In accordance with 29 CFR 97.21(i), non-State governmental grantees and subgrantees must remit interest earned on non-WIA Title I funds to the ETA on a quarterly basis. The grantee/subgrantee is entitled to retain amounts less than $100 per year for administrative expenses.

Nongovernmental grantees and subgrantees are governed by 29 CFR 95.22(l), which requires an annual remittance of interest to the Federal government. Grantees/subgrantees are authorized to retain up to $250 per year for administrative expenses.

Grantees and subgrantees are liable for interest earned on funds until the funds are paid out by the banks, not when a check or warrant is issued or disbursed by the grantee.

Local Policy

Some local governments require that cash be on deposit in the account before a check can be issued. In such instances, local governments are encouraged to regard funding documents (e.g., recipient-issued letter of credit/subgrant award) as a guaranteed equivalent of cash on hand.

Cash Forecasting

Cash forecasting identifies specific needs within a specific time frame and should be required. Cash forecasting can be daily, weekly, on some other defined disbursement cycle, or as needed. The point is not to prescribe a specific cash forecast period, but to gear the cycle to when cash is actually paid out at the bank. A valid clearance pattern is an acceptable method of cash forecasting.

Most local area grantees and subrecipients operate on a cash advance basis. To the maximum extent feasible, subrecipients should be provided with advance payments via EFT. Consistent with the policy of maintaining minimum cash balances, the recipient is required to develop procedures for subrecipients to submit requests for cash resources. Such procedures should not allow cash to be paid out in amounts that exceed immediate needs.

WIA Individual Training Accounts (ITAs)

ITAs are defined and addressed in the WIA regulations at 20 CFR Part 663, Subpart D. When an ITA has been established for an individual participant, payment for the training services may be made in a variety of ways. A formalized payment method should be in place before any payments are made. Payments under ITAs are governed by the cost standards applicable to the expenditure of all Federal funds. Unless specifically required as a condition of attendance, as in a tuition payment required before beginning a formal training course, payments should not be made in advance of the receipt of services. The ITA itself is not an expenditure document and does not authorize the drawdown of cash.

Funding Techniques under the Cash Management Improvement Act

Grantees and subgrantees may select from among several funding techniques, and it is possible to have a different funding technique for each program. These techniques are described in 31 CFR Part 205. While the techniques are discussed as they relate to a State grant under the CMIA, they may also be used by grantees and subgrantees not subject to the CMIA. The techniques discussed in this Attachment are:

- Zero Balance Accounting
- Estimated Clearance
- Average Clearance
- Pre-Issuance Funding.

Zero Balance Accounting

How It Works. With this technique, a recipient requests funds, and the agency deposits funds in a State account on the same day that program funds are paid out by the State. Under this arrangement, the account balance is always zero.

How It Works for Subrecipients. The same concept can be applied to subrecipients in a non-CMIA setting. A subrecipient requests funds equal to the amount paid out, and the State agency deposits the same amount in the subrecipient account on the same day program payments are made.

Using zero-based bank accounts, States can employ some variations to this technique to improve cash management at the subrecipient level. For instance, separate zero-based accounts could be established for all or a selected number of subrecipients at the same bank used by the recipient. As checks are presented for payment, the bank simply transfers cash from the State account to the zero-based subrecipient account in an amount equal to the total of checks presented each day.

Many organizations use a separate bank account for payroll. A more efficient arrangement is for the subrecipient to arrange for a zero-based payroll account with the bank. The bank simply transfers from the agency working account to the payroll account an amount equal to the amount of checks presented for payment. Such an arrangement eliminates the need for cash to be deposited in a payroll account during the time period needed to clear payroll checks.

Estimated Clearance

Neither the Federal government nor a State will incur an interest liability when this funding technique is properly applied.

How It Works. Clearance patterns that are auditable and based on sound principles must be established but need not track every transaction. Statistical sampling models can be used. Clearance patterns establish the cash needs and payout relationship. The following example is based on $1.5 million worth of checks mailed to subrecipients/contractors by the State.

Day	Dollars Paid Out by State (%)	Cash Requested From Federal Government ($)
0	Checks Mailed	-0-
1	-0-	-0-
2	-0-	-0-
3	-0-	450,000
4	30	600,000
5	40	300,000
6	20	150,000
7	10	-0-

This technique requires processing several drawdowns on consecutive days. Timing and error-free drawdowns are fundamental requirements of the estimated clearance technique.

How It Works for Subrecipients. The same concept can be applied at the subrecipient level. A subrecipient requests funds one business day prior to need, and the State deposits funds the next business day in the subrecipient bank account, based on the established clearance pattern. Timing and error-free drawdown processing are important to ensure cash availability.

Average Clearance

Under the CMIA, neither the Federal government nor the State will incur an interest liability when this funding technique is properly applied.

How It Works. Average clearance is established based on the dollar-weighted average number of days required for funds to be paid out (bank clearance) by the State after a disbursement. How this works is clarified in the following example. The factor is obtained by multiplying days by percent of dollars paid out. In this example, the State mails $1.5 million in checks to subrecipients.

Days		Dollars Paid Out (%)	Factor
1	(Checks issued)	-0-	
2	Cash requested	-0-	
3	Cash deposited, Checks clear	30	.60
4	Checks clear	40	1.20
5	Checks clear	15	.60
6	Checks clear	10	.50
7	Checks clear	05	.30
		Total Average Days	3.20

Based on the above average clearance of three days, the State requests $1.5 million on Day 2 and receives that amount on Day 3, which is the dollar-weighted average number of days required for checks to be presented at the bank rounded to the nearest whole number. As with estimated clearance, average clearance can be employed at the subrecipient level.

Pre-Issuance Funding

When this funding technique is applied, a State will incur an interest liability to the Federal government from the day Federal funds are credited to a State account to the day the State pays out the funds for program purposes. The following example shows how interest will accrue, assuming $1.5 million in Federal funds deposited in the recipient's account on Day 0.

Day	Dollars Paid Out by Recipient (%)
0 (Federal funds deposited)	-0-
1 (Funds on deposit)	-0-
2 (Recipient issues checks)	-0-
3 Funds on deposit	-0-
4 Checks clear	60
5 Checks clear	20
6 Checks clear	10
7 Checks clear	5
8 Checks clear	5

How It Works. Under the above pre-issuance funding arrangement, the State will owe the Federal government four days of interest on 60 percent of the funds, or $900,000, since that amount will be paid out for checks presented four days after Federal funds are deposited in the State account. The State will owe five days of interest on 20 percent of the funds, or $300,000; six days of interest on 10 percent of the funds; and so on.

A State will incur an interest liability to the Federal government if Federal funds are in a State account prior to the day the State pays out funds for program purposes. A State interest liability will accrue from the day Federal funds are credited to a State account to the day the State pays out the Federal funds for program purposes.

Chapter II-7

Program Income

INTRODUCTION

This chapter defines program income; distinguishes between what program income is and is not; and provides guidance on the proper methods of calculating, using, and applying program income. It contains the following sections:

- Definition
- Program Income Inclusions
- Interest Income
- Program Income Exclusions
- Accounting for Revenue and Cost of Generating Program Income
- Accounting for the Expenditure of Program Income
- Uses of Program Income
- One-Stop Program Income.

What the Regulations Require

The requirements governing the use of program income are found at 29 CFR 95.24 (non-government grantees) and 29 CFR 97.25 (governmental grantees).

Part 97 defines program income and encourages earning program income as a method of defraying program costs. The WIA regulations at 667.200(a)(5) require the addition method to be used to account for program income, as does Part 95.

Both Part 95.24 and Part 97.25 specify that there are no requirements regarding program income earned after the grant period has ended.

20 CFR 667.200(a)(6) requires governmental and nonprofit organizations to account for all revenues in excess of costs as program income.

20 CFR 667.200(a)(7) requires that interest earned on Title I grant revenues be accounted for as program income. This includes the formula grants under Title IB as well as Job Corps, Veterans', Indian and Native American, and National Farmworker Jobs programs.

DEFINITION

Program income is defined in 29 CFR 97.25(b) as the "gross income received by the grantee or subgrantee directly generated by a grant-supported activity, or earned only as a result of the grant agreement during the grant period…" A similar definition is found in 29 CFR Part 95.2(bb).

PROGRAM INCOME INCLUSIONS

A list of the types of income that are considered program income for purposes of WIA grants is included in 29 CFR 97.25(a). The following list, drawn from the requirements of Part 97 and other regulations, addresses some of the differing types of program income that might be generated under the grants. The definition of program income in 29 CFR Part 95.2(bb) contains a similar list.

- **Fee for Services.** Income from fees charged for services.

Example: The One-Stop operator provides pre-employment services for a number of private businesses. There is a per-head fee for these services. The fees are considered program income.

Example: The One-Stop operator provides these same pre-employment services for both private businesses and participants eligible under WIA. The per-head fee is based on the total costs of the activity. The revenues realized from the fee charged to private businesses are considered program income.

- **User or Rental Fees.** Income from the use or rental of personal property acquired with grant funds.

Example: The local Job Service has purchased a fax machine with Wagner-Peyser funds and allows usage by Veterans' program and UI representatives. A per-page fee is charged for such use. The fees are considered program income.

- **Sale of Products.** Income from the sale of goods constructed under a grant agreement.

Example: As part of a course on small business development, materials are bought and used to manufacture small items. The proceeds from the sale of these items are considered program income. If the goods produced were written materials, the sales of materials would also be considered program income. (Also see the discussion on royalties in this chapter. Information on copyrights is also provided in Chapter II-11, *Property Management*.)

- **Revenues in Excess of Expenditures.** If a Governmental or nonprofit organization earns or receives revenue in excess of its costs under a WIA Title I program, that revenue is to be treated as program income. This provision does not apply to commercial for-profit entities. The requirement applies to all Title I programs (Adult, Youth, Dislocated Workers, Job Corps, Native American, Farmworker and Veterans' programs). [20 CFR 667.200(a)(6)]

Example: A nonprofit youth service provider has a fixed-price contract for the provision of placement services to out-of-school youth. Based on their performance, they have earned revenues that exceed the costs incurred by the organization in providing the services. These revenues are considered program income.

INTEREST INCOME

Income earned from the interest paid on grant funds is treated differently for WIA Title I programs than for most other Federal grant programs and ETA-funded required partner programs such as Wagner-Peyser. Both the Act and the regulations specify that interest earnings are to be treated as program income and are subject to the rules applying to program income referenced in 97.25 and 95.24. [20 CFR 667.200(a)(7)] These rules apply to all programs funded under Title I of the WIA, including Adult, Youth, Dislocated Worker, Job Corps, Native American, Farmworker, and Veterans' programs. They do not apply to the non-WIA Title I programs funded under Wagner-Peyser, UI, WtW, Older Americans, Trade Act, and NAFTA. Interest earned under non-WIA programs is discussed in Chapter II-6, *Cash Management*. If an organization receives funds under both Title I programs and non-Title I programs, the grantee is responsible for identifying the proportionate share of any interest earnings attributable to each type of program.

Example: A nonprofit LWIB maintains an interest-bearing account for all grant revenues. The LWIB receives funding from both WIA and non-WIA ETA-funded grants. The interest earned on the WIA revenues would be treated as program income and added to the total WIA grant. The interest earned on non-WIA ETA fund advances would not be considered as program income, but interest amounts over $250 per year would be returned to the Federal government in accordance with the requirements of 29 CFR 95.22.

PROGRAM INCOME EXCLUSIONS

The regulations at 29 CFR 97.25 list the types of revenues that are not included as program income. These same revenues would also be excluded under 29 CFR Part 95. Each is listed below, followed by an example to illustrate application of the rule.

- **Applicable Credits.** Reductions to grant costs as a result of refunds, rebates, credits, discounts, or the interest earned on them.

Example: The WIA Adult program operator receives a year-end rebate based on volume purchasing of software. The rebate is not considered program income; however, the proper accounting for the rebate is a reduction to the line item costs for software.

- **Sale of Property.** Proceeds from the sale of personal property. The requirements for handling the revenues from the sale of property for which the grantee is accountable are covered at 29 CFR 97.32 and 29 CFR 95.30 through 95.37.

Example: The UI entity disposes of a copier with a fair market value of $8,000, following the requirements of Part 97 and State requirements. The revenues realized from the sale of the property are not considered program income. However, the calculated share of the proceeds from the sale must be returned to the awarding agency.

- **Royalties.** Income from royalties and license fees for copyrighted material, patents, and inventions developed by a grantee or subgrantee. This income is considered program income only if specifically identified as such in the grant agreement or Federal agency regulations. [97.25(e)] Part 95 specifically excludes this income unless DOL regulations or the grant agreement specify otherwise. However, grantees and subgrantees should be aware that the payment of royalties by WIA and other Federally funded grants is an unallowable cost under OMB Circular A-122. DOL policy is that Federal funds may not be used to pay royalties for Federally developed projects or works.

Example: The One-Stop operator writes a software application to computerize its case management system. The program is copyrighted and licensed to non-Federally funded programs. The resulting revenues are not considered program income. The ETA maintains a royalty-free right for use and distribution of the materials; this is discussed further in Chapter II-11, *Property Management*.

Additional exclusions from program income are listed below.

- **Income Earned after the Grant Period Has Ended.** The grantee is not accountable for income earned after the end of the award period. However, the grantee must report program income expended after the grant period if the income was earned during the grant period.

- **Donations.** Donations and contributions are voluntarily given to the ETA-funded program. As they are not generated by the use of grant funds, such revenues do not constitute program income.

- **Profits of Commercial Organizations.** Profits earned by commercial for-profit organizations are not considered program income. Care should be taken to minimize the amount of profit generated by grants (see Chapter II-10, *Procurement*).

- **Matching Funds.** Funds provided to satisfy the matching requirements of the ETA grants are not considered program income. Conversely, program income generated through the ETA-funded grants may not be used to satisfy any match requirements.

ACCOUNTING FOR REVENUE AND COST OF GENERATING PROGRAM INCOME

Two methods are used in accounting for revenue and costs associated with generating program income, the net income method and the gross income method.

Net Income Method

With the net income method, the costs incidental to the generation of program income are netted against or deducted from gross program income to determine the amount of net program income. The expenditures and revenues associated with performing the activity that generates program income are tracked separately in the accounting records. Periodically, revenues and expenses are netted to determine the amount of net program income. Net program income is then recorded in the appropriate program income account. Part 95 requires that the costs incident to generation not be charged to the grant when using this method.

> **Example:** A nonprofit WIA youth service provider operates several training programs using fixed-unit-price, performance-based contracts. The expenditures incurred and revenues earned under each contract are accounted for separately. For each contract, expenditures and revenues are netted, and the net income resulting from each contract is then recorded as program income to the ETA.

In some cases, the most efficient approach to account for program income is to net revenues against only part of the costs in order to determine net program income.

> **Example:** The local area grantee uses its own staff to conduct a conference on case management that is attended by other local area grantees and WIA-funded service providers. Staff costs of presenting or attendance are charged to the appropriate WIA expense accounts. These costs would include staff costs for conference coordination and logistics, meeting room costs, etc. The local area grantee's additional costs for conducting the conference are accounted for separately and total $5,000. Registration fees and other revenues are also accounted for separately and total $6,000. The conference produces net program income of $1,000, which is recorded in the WIA grant account.

Gross Income Method

With this method, all gross revenues derived from program income activities are accounted for as program income. In turn, the grantee's share of the allocable costs associated with generating that revenue are charged to the appropriate program activities and/or cost categories. In the accounting records, the entire amount of gross revenues would be recorded in the program income account for the funding period. The funding period to which the program income is assigned is the same funding period to which the corresponding expenditures are charged. Expenditures incurred in generating the program income are charged to the appropriate cost categories and/or program activity.

> **Example:** The grantee funds a small business development course for WIA Dislocated Worker participants on a cost reimbursement basis. The participants prepare business plans and engage in the manufacture or production of items for sale to the public. The ETA-funded grant is billed for the cost of training, tools that will be retained by the participants, and parts that are used in production. The subrecipient charges all these costs to the appropriate cost categories/program activity based on the subgrant requirements. All the revenue collected from the sales is ETA-funded program income to the subrecipient, is recorded as program income in the books of account, and is to be used to provide additional ETA-funded services under the subrecipient agreement.

ACCOUNTING FOR THE EXPENDITURE OF PROGRAM INCOME

Once the amount of program income has been determined and the funding period identified, two alternative approaches may be used to account for the expenditure of the program income. The additional services may be separately accounted for in the program income account, or already recorded expenditures may be transferred to the program income account.

Separate Accounting

When using separate accounting, program income is treated as additional funds committed to the (sub)grant agreement, for which separately identifiable services are performed, and the expenditure of program income is accounted for separately from the original agreement. For accounting purposes, the program income is treated as if it were a separate (sub)grant or cost objective.

> **Example:** A nonprofit organization earned $5,000 in program income, which was the amount by which revenues exceeded costs under a fixed-unit-price agreement funded by the ETA. The organization used the program income to provide additional training and placement services consistent with the terms of the original agreement and established separate ETA-funded accounts by cost category to record the expenditures incurred in providing the additional services.

Transfer of Expenditures

When using this approach, expenditures are initially recorded in the accounts of the original agreement and are subsequently transferred to the program income account to offset the amount of program income earned. The result is that the program income is accounted for as fully expended, while expenditures charged under the (sub)grant agreement are reduced by the amount of expenditures that have now been applied to program income.

> **Example:** During the grant period, a service provider has recorded $1,000 in program income. To expend the program income within the grant period, the service provider transfers $1,000 in expenditures already incurred under the subgrant from the appropriate cost categories to the program income account and reduces subgrant expenditures in the corresponding cost categories by that same amount. This has the effect of freeing up the $1,000 to be used for additional expenditures under the subgrant. When submitting its expenditure report, the service provider reports the amount of program income earned, the amount expended by cost category, and final net expenditures charged to the subgrant.

Again, the WIA regulations require that the net program income be added to the total funds available for the program. Thus, the transfer of expenditures is only applicable should the entity fully expend both the grant and the program income.

USES OF PROGRAM INCOME

The requirements for using ETA-funded grant funds also apply to the use of program income with the exception of the administrative cost limitation. These requirements include:

- Allowable cost guidelines
- Cost classification guidelines
- Inclusion of program income earnings and expenditures in the audit
- Rules on procurement and selection of service providers
- Participant records and other record-keeping requirements
- Sanctions for misuse.

WIA regulations and 29 CFR 95.24(a) specify that program income is to be added to the total grant award and used to provide the same services as the original grant agreement. Neither Part 95 nor Part 97 specifies any requirements for earned program income that is not expended within the grant period.

However, both Parts 97 and 95 require program income to be expended in conformance with the terms and conditions of the grant, including provisions related to the period of performance or fund availability. The ETA therefore requires program income to be wholly expended within the three-year period of availability for WIA formula grants or the period of performance specified in an individual grant agreement. Any program income funds remaining

would be used to reduce the reported grant expenditures at closeout. A further discussion of the closeout process is contained in Chapter II-15, *Agreement Closeouts*.

ONE-STOP PROGRAM INCOME

Program income earned at the One-Stop center as a result of shared activities or shared costs is attributable to all partners participating in the cost or activity. If program income is earned at the One-Stop as a result of shared costs or activities, then that income must be distributed to all partner organizations that participated in the activity or cost. The program income should be allocated in the same proportion as the shared costs. Program income must be expended on allowable grant activities and is subject to the requirements discussed in this chapter related to earnings and expenditures. The earning, allocation, and use of program income should be addressed in the Resource Sharing Agreement. Partners may agree to use program income to reduce their share of costs or resources needed to fund the costs if that is allowable under the partners' authorizing statutes and regulations. WIA grantees and subgrantees are reminded that they must use the addition method in expending program income.

Chapter II-8

Cost Allocation and Cost Pooling

INTRODUCTION

This chapter provides general guidance on cost allocation principles, methods of allocating costs, the use of cost pools, development of Cost Allocation Plans (CAPs), and allocation of personnel services costs to ensure that ETA-funded costs are properly and equitably distributed to the benefiting cost objectives. This chapter addresses the cost allocation requirements for programs. Cost allocation as it relates to the shared costs of One-Stop operations and the development of Memoranda of Understanding (MOUs) and Resource Sharing Agreements (RSAs) is discussed in Chapter I-3, *Proportionate Share and Cost Allocation*. This chapter contains the following sections:

- Requirements for Financial Management Systems
- Elements of Cost and Their Allocability
- Treatment of Costs
- Cost Pools
- Allocating Personnel Services Costs
- Allocation Bases
- Cost Allocation Plans
- Alternative Time Distribution
- Attachment II-8-1—Alternative Time Distribution Systems
- Attachment II-8-2—Sample Personnel Activity Report.

Allocability is one of the basic cost principles (discussed in Chapter II-3, *Cost Principles*) used in determining whether costs are allowable to ETA-funded programs. Allocability is a measure of the extent to which a cost benefits the ETA grant program in general and its cost objectives in particular. To the extent that a cost does not benefit the program, the cost cannot be charged to the Federal grant.

The total cost of a grant program is comprised of the allowable direct costs incident to its performance, plus the allocable portion of allowable indirect costs, less applicable credits. Direct costs are readily identified with and directly charged to a specific cost objective.

Costs that are not readily chargeable to a final cost objective are often aggregated into intermediate cost objectives, usually called cost pools, and are periodically allocated to final cost objectives using an appropriate allocation methodology. Cost pools can be established for any type of cost when it is beneficial or necessary to pool costs. All pooled costs must ultimately be allocated to the final cost objectives in proportion to the relative benefits received by each cost

objective. This chapter provides guidance on the allocation of direct, pooled, and indirect costs to the ETA-funded program.

REQUIREMENTS FOR FINANCIAL MANAGEMENT SYSTEMS

The regulations at 29 CFR 97.20 and 95.21(b) set the requirements for financial management systems. They require that organizations follow the cost principles written in the applicable OMB circular. These cost principles require, in general, that, to be allowable, a cost shall be necessary and reasonable for the proper and efficient administration of the program; be allocable to the program; and, except as provided in the case of governmental recipients/ subrecipients, not be a general expense required to carry out the overall responsibilities of the Governor or a governmental subrecipient. Each of these conditions is defined in the circulars and the DOL regulations.

Whether a cost is charged as a direct cost or as an indirect cost shall be determined in accordance with the descriptions of direct and indirect costs contained in the cost principles identified in the DOL's regulations at 29 CFR 97.22(b) and 95.27.

For nonprofits, the cost principles are contained in OMB Circular A-122; for educational institutions, A-21; and for State and local governments, A-87. For commercial organizations, the cost principles are found at 48 CFR Part 31.

ELEMENTS OF COST AND THEIR ALLOCABILITY

Direct ETA-funded organizations are required to follow the cost principles contained in the appropriate OMB circular, as identified at 29 CFR 97.22(b) and 95.27. The circulars include guidance on distinguishing between direct and indirect costs. Beyond the general guidance provided in the circulars, there is no universal rule for classifying certain costs as either direct or indirect under every accounting system.

Costs are normally classified as direct or indirect based on their relationship to a particular cost objective. Generally, a direct cost can be traced to a particular cost objective, whereas an indirect cost is incurred for multiple cost objectives and is charged to an intermediate cost objective pending allocation. A cost may be direct with respect to some specific service or function but indirect with respect to the grant or ultimate cost objective. The shared costs of the One-Stop system may be either direct or indirect costs. The allocation process related to the shared costs of the One-Stop system is discussed in Chapter I-3, *Proportionate Share and Cost Allocation*.

This guide groups costs into three categories for purposes of discussing cost allocation and cost pooling. A brief description of each of these categories follows.

Direct Costs

Direct costs may be specifically identified with and assigned to a final cost objective, such as an ETA cost category. Direct costs are charged directly to a final cost objective such as a cost category or the ETA-funded grant and do not require any further allocation or breakdown by funding source or cost category.

> **Example:** The salary cost of a staff person performing case management duties only for WIA Title IB Adult participants is directly assignable to the program cost category under the Adult formula grant. It is fully chargeable to WIA Title IB Adult programs because the case manager is serving adult participants only.

> **Example:** The staff person in the above example performed case management duties for both WtW participants and WIA Adult participants and documented the hours spent on each program on a time sheet. The salary costs would be a direct cost to both WtW and to the WIA Title IB Adult, based on the documented time sheet hours.

Shared Costs

Shared costs are costs that cannot be readily assigned to a final cost objective, but which are directly charged to an intermediate cost objective or cost pool and subsequently allocated to final cost objectives. These costs are incurred for a common or joint purpose benefiting more than one cost objective. These costs are similar to the general indirect costs in that it is easier to assign or allocate them based on some measure of benefit received than to assign them directly to final cost objectives.

> **Example:** Three staff members provide case management services to participants in the WIA program without regard to whether the participants are Adult or Dislocated Worker participants, and it is difficult to identify time spent by participant. The case managers' costs are directly assigned to the program cost category (Core Services) but are not readily assignable by type of participant. The case managers' costs could be directly charged to a cost pool established to accumulate such costs and later distributed to the appropriate category using an appropriate allocation method, such as the relative number of participants enrolled.

Indirect Costs

These costs may originate in the recipient's or subrecipient's own organization or in other departments that supply goods, services, or facilities to the ETA-funded program. Most often, however, general indirect costs are costs that are incurred to support the overall operation of the organization, and for which a direct relationship to a particular ETA-funded program cannot be shown without effort disproportionate to the results achieved. Indirect costs are charged back to the program using an indirect cost plan (or a CAP) or rate. The development of indirect cost rate

or allocation plans is contained in Attachments C and E of OMB Circular A-87 and Attachment A of OMB Circular A-122 and is discussed in further detail later in this chapter.

> **Example:** The grantee is a department within the city, and the city treasurer processes payroll for payment. Staff in the treasurer's office cannot readily identify the time and other costs associated with processing the grant program's payroll. Rather, the city's approved indirect cost plan is used to charge each ETA-funded program its proportionate share of the processing costs at least quarterly, using transaction counts as the basis for allocation.

TREATMENT OF COSTS

Intermediate and Final Cost Objectives

A cost objective is an activity for which separate cost measurement is performed. A further distinction is made between intermediate and final cost objectives.

An intermediate cost objective can be a cost pool, center, or area established for the accumulation of costs, assigned to such dissimilar categories as organizational units, functions, objects, or items of expense. Final cost objectives include specific funding sources, cost categories, grants, program activities, projects, contracts, and/or other activities.

The final cost objectives discussed here are limited to the ETA-funded grants and the cost categories/activities as identified in the regulations for each program. These are the minimum number of final cost objectives that ETA-funded entities must establish to meet the Federal reporting requirements. A discussion of the reporting requirements is contained in Chapter II-9, *Financial Reporting*, of this TAG. Cost classification is discussed in Chapter II-5, *Cost Classification*.

ETA-funded entities may choose or be required to establish additional final cost objectives for internal reporting or other non-Federal purposes, such as reporting costs by individual participant/program activities or by contract budget line items. The basic guidelines on cost allocation apply to these additional cost objectives as well.

Measuring Benefit

Measuring benefit is the critical requirement and central task to be performed in allocating costs. Throughout this chapter, the requirement is stressed that costs are allocable to a particular cost objective to the extent of benefits received by that cost objective. Likewise, costs that do not benefit a particular cost objective are not allocable to and cannot be charged to that cost objective.

For a direct cost to be assignable in its entirety to a particular cost objective, the cost objective must receive the full benefit from the goods, services, activities, or effort that make up

that cost. In this instance, measuring benefit entails no more than identifying the full cost of the activity and assigning it to the correct cost objective.

> **Example:** The staff costs associated with performing job development functions for the INA program are directly assignable to the cost category of Employment Services. That cost objective receives the full benefit of the cost of the job development activity.

Very often, however, a cost benefits more than one cost objective, so that any single cost objective receives only partial benefit from the cost incurred. Thus, the relative benefit received by each cost objective must be measured.

> **Example:** If the job development staff in the above example also performed duties related to case management at the same time, the costs would benefit more than one cost category (Employment Services and Other Program Services) and, therefore, must be prorated among the benefiting cost categories. To determine each category's share of the cost, an allocation method must be identified that measures each category's share of the total benefit.

It is possible and preferable in some cases to directly assign the correct portion of shared costs to each cost objective. For example, the staff in the above example could record the time spent performing each function and distribute the costs accordingly.

However, disproportionate effort may be required to directly assign each segment of the total cost to the benefiting cost objective. When the direct measurement of benefit cannot be done efficiently and effectively, then it is appropriate to pool the costs for later distribution. The allocation base is the mechanism used to allocate the pooled costs to final cost objectives and is discussed later in this chapter. Using the above example, instead of staff recording time spent by activity, the organization could use the relative number of participants in each activity or some other equitable basis for measuring benefit to each program. Care should be taken to ensure that the basis chosen does not distort the results and that the basis is appropriate to the cost objectives receiving the costs. **Caution:** For pooled costs, the cost elements that make up the pool must be scrutinized to ensure that all costs are allowable to the ETA-funded grant. Costs that are not allowable must be removed from the pool before the pooled costs are allocated to ETA cost objectives.

> **Example:** A nonprofit organization charges costs of the director to an administrative pool. Part of the director's duties is fundraising, which is an unallowable cost under the cost principles of A-122, Attachment B. That portion of the director's salary attributable to fundraising activities would have to be excluded from the pool prior to allocation to the program. In this example, the pool would need to be allocated twice (in total to all non-Federal fund sources and as modified to Federal fund sources) and care taken that all funding sources receive their fair share of the pooled costs. The fundraising costs would also need to bear a portion of the indirect costs as applicable.

When the Federal grant does not use or derives no benefit from the cost of an activity, service, product, or effort, then the associated cost cannot be charged to any ETA-funded cost objective. A cost must benefit (be allocable to) an ETA-funded cost objective to be an allowable cost under the ETA-funded program.

Consistent Treatment

For a cost to be allocable to a particular cost objective, it must be treated consistently with other costs incurred for the same purpose in like circumstances. A cost may not be assigned to an award as a direct cost if any other cost incurred for the same purpose, in like circumstances, has been allocated to an award as an indirect cost. Costs identified specifically with awards are direct costs of the awards and are to be assigned accordingly. Costs identified specifically with other final cost objectives of the organization are direct costs of those cost objectives and are not to be assigned to other awards directly or indirectly.

> **Example:** A director has administrative responsibility for a WIA-funded youth program and non-ETA-funded programs, and also spends four hours a week teaching a class to youth participants on work skills. For the 36 hours of general administrative time, it would not meet the standard of consistent treatment to simultaneously charge a portion of the director's time as a direct cost to WIA and as an indirect cost to the non-ETA funded program, since the same type of cost (the administrative cost of the director) should be treated the same in both programs. However, the four hours of teaching time can be charged directly to WIA regardless of how the administrative costs were charged, since the training costs were not incurred for the same purpose as the administrative costs.

Any cost allocable to a particular grant or other cost objective under these principles may not be shifted to other Federal grants to overcome funding deficiencies, to avoid restrictions imposed by law or grant agreement, or for other reasons. [OMB Circular A-87]

COST POOLS

Many types of cost pools are acceptable if established and managed properly in the entity's accounting system. Examples include:

- Indirect cost pools
- Intake cost pools
- Administrative cost pools
- Supplies expense pools
- Other combinations of costs that are similar in nature and are shared among several cost objectives.

Consider the following when developing cost pools:

- **Written Cost Allocation Plan.** The cost pool should be described and documented in a written CAP that is used in allocating all allocable direct costs within each program to the appropriate program activity and cost category. CAPs are discussed in a later section of this chapter.

- **Combined Administrative Costs.** Shared administrative costs can be combined with any general indirect administrative costs and allocated using an appropriate allocation methodology or base.

- **Personnel Services.** Personnel services costs (salary and fringe benefits) of internal staff who spend a portion of their time in administrative and a portion of their time in allowable participant services functions can be individually distributed among the respective cost categories using staff time records or other verifiable means. A supporting time record that prorates the time between two or more functions is recommended. Time records should include hours spent on each cost objective. A position description alone is insufficient documentation.

- **Nonpersonnel Services.** Nonpersonnel service costs (costs such as supplies associated with staff usage) that benefit more than one cost objective can be allocated to more than one cost objective. Such allocations must be based on an appropriate allocation methodology.

Caution: Costs that may be pooled are limited to shared and indirect costs. Non-shared direct costs should not be pooled but rather should be directly charged to the benefiting cost objective. Only actual, not budgeted, costs may be pooled and distributed to the various funding titles. Costs incurred based on an indirect cost rate may be included in the appropriate administrative cost pools for allocation.

The allocation of cost pools based on benefits received should not be burdensome once the methodology is developed. Where a cost pool is used, the expenditures must be distributed among the various funding sources for reporting purposes. The method of allocation should be consistent with the guidelines addressed in other sections of this guide.

Types of Pools

Administrative Cost Pools. One of the benefits of an administrative cost pool is that, very often, administrative costs benefit multiple programs, and the effort of directly classifying portions of a cost to a number of programs is onerous. However, care should be taken that the allocation methodology chosen fairly distributes the costs to all affected funding sources. The allocation of administrative costs or any other pooled costs based on fund availability or percentage of funding source administrative dollars (contribution method) is generally not allowable. The allocation of pooled administrative costs based on each program's share of direct costs is the best method. The agency auditor should be contacted for technical assistance and concurrence on any methodology developed. The WIA allows for formula administrative funds to be allocated to the local level in a single combined grant and costs to be reported without

regard to funding stream, therefore, an administrative cost pool may not be needed. In addition, ETA programs reporting solely on the SF 269 do not report by cost category, thereby negating the need for administrative cost pools, unless they pool administrative costs for allocation to more than one Federal program.

However, a number of programs, including the WtW, TAA/NAFTA/TAA, SCSEP, and WIA Title ID programs, require administrative costs to be reported separately. If the costs are not directly classified to the final cost objective, then an administrative cost pool would be beneficial.

Other Cost Pools. Cost pools other than administrative can be established for any types of common costs when it is practical or necessary to pool such costs. The following example illustrates when cost pools could be established for other than administrative costs.

> **Example:** A local area grantee has frontline intake staff members who conduct the initial intake for both ETA and other programs. An intake manager is responsible for overseeing and managing the client flow process, supervising the intake workers, and reporting to the deputy director.
>
> All costs are unassignable, initially pooled, and charged temporarily to an intake-related cost pool account. These costs include the salary and fringe benefits of the line staff and intake manager, materials, phones, and other related costs required to carry out the intake function.
>
> Then, based on an approved formula that distributes costs based on benefits received by each program (such as the number of eligibility determinations completed for each program or the number of persons enrolled during the period), the costs are charged back to the appropriate programs.

Cost Pool Management

Cost pools reduce some of the burden of tracking expenditures because they are vehicles for temporarily accumulating unassignable direct and indirect costs that later will be allocated to a particular program. As costs accrue, a formula based on the benefits received by each program dictates how these costs will be distributed and reported by program title/subtitle or cost category. This eliminates trying to assign all staff time and every expenditure by grant or title at the time it is incurred.

ALLOCATING PERSONNEL SERVICES COSTS

Amounts charged to ETA-funded programs for personnel services, regardless of whether treated as direct or indirect costs, must be based on payrolls documented and approved in accordance with the established practice of the employing entity. Payrolls should be supported by time and attendance or equivalent records for individual employees.

In general, time distribution records or other verifiable means will be used to document how personnel services costs are charged to cost objectives. Time sheets and/or time and attendance records alone, however, do not necessarily satisfy the time distribution requirements and grantees/subgrantees are urged to carefully review the requirements for documenting personnel services costs that are described in the OMB cost principles circulars. OMB Circular A-122, Attachment B, Item 7 describes the requirements that must be met to support personnel compensation costs for nonprofit agencies. OMB Circular A-87, Attachment B, Item 11 describes the requirements for governmental grantees. Both circulars require that personnel compensation costs be supported by a time distribution system that includes personnel activity reports or periodic certifications. The method used to charge these costs to cost objectives, and the documentation needed to support the allocation of the costs, will vary by type of cost and how that cost is treated in the accounting system.

Daily Time Distribution Records

A time distribution system is a formal method for accumulating labor costs associated with specific programs. Time distribution can be documented in a variety of ways. The most commonly accepted method is to record actual time spent on each cost objective during each working day (a time sheet). Other methods are also discussed below. The most appropriate method to use will depend on the circumstances in each case.

Direct Costs. When the personnel services cost of an individual or group of individuals is chargeable in full to a single cost objective, it is not necessary to maintain a daily time distribution record for that staff person. Other documentation should be available to support the claim that the person's activities and costs do not need to be allocated to more than one cost objective. Other documentation could include negative time distribution reporting, approved and written office policies and procedures, or other written forms of task assignment. **Note:** OMB Circular A-87 requires a periodic certification (at least semi-annually) that the employee worked solely on the grant being charged. A job description will not suffice for the required certification.

> **Example:** The agency director's time is spent entirely on administrative activities and can be charged as a direct cost to the Administrative Cost category without daily time distribution records. The job description is a likely form of documentation in this instance, supplemented by the periodic certification required by OMB Circular A-87 or the personnel activity reports required by OMB Circular A-122. However, the allocation of the administrative cost across programs would have to be documented in a separate manner.

Shared Costs. Salaries and wages of many employees are chargeable to more than one grant or cost category. Daily time distribution records, or some acceptable method of time sampling such as those discussed in this chapter, are the most common forms of documentation used in this situation. The method used must accurately reflect the actual time spent on each activity by each employee. Budget estimates or other distributions determined before the services are performed cannot be used to support charges to an ETA-funded program.

For staff members who maintain daily time distribution records, there are periods during the day or within the pay period when it is difficult to associate time worked with a specific cost objective. This is the case when a person is attending a general staff meeting or is on sick or vacation leave. In these instances, the recommended method of allocation is the use of direct hours charged to each cost objective as the basis for allocating the other time that is spent on general activities, provided there are a sufficient number of direct hours to establish an adequate base.

Example: During the 80-hour, two-week pay period, a staff person worked 35 hours on intake and case management activities (ICM), 35 hours on administrative activities (ADM), and took 10 hours of leave. The 10 hours of leave are shown on the chart as general hours and can be allocated among the cost categories as follows:

	ICM	ADM	General	Total
Hours charged	35	35	10	80
Hours worked	35	35	0	70
% of total hours worked	50	50	0	–
Share of general hours	5	5	–	–
Total hours allocated	40	40	0	80

Nonpersonnel Services Costs

Nonpersonnel services costs, when directly associated with time worked by the recipient's or subrecipient's staff, may also be allocated to the benefiting cost objectives based on documented distributions of actual time worked. These costs could include space costs, utilities, building maintenance, supplies, and other such costs correlated with staff usage. To use time distribution as the basis for allocation of nonpersonnel services costs, time worked must be an equitable measure of the benefit derived from nonpersonnel services costs.

Example: Desktop supplies are stored centrally and used by all staff in performing their jobs. It is reasonable to conclude that the supplies are used in the same manner and for the same purpose as the time spent by staff while using the supplies. It is acceptable to use time distribution as the basis for allocating the cost of desktop supplies to various cost categories.

Other Methods of Directly Charging Time

This section discusses two methods of directly charging time as possible alternatives to continuous time distribution. They fall into the general categories of time sampling systems and non-time-based measures. OMB Circulars A-87 and A-122 require Federal cognizant agency approval of any time distribution system that does not rely on daily time distribution records (usually a time sheet). If an organization does not have a Federal cognizant agency, it must carefully document the method used to charge time and how that method complies with the requirements found in the circulars. Examples of the type of documentation may be found in the discussions contained in Attachment II-8-1.

Time Sampling. A variety of work sampling and work measurement techniques is explained in greater detail in Attachment II-8-1 to this chapter, including:

- Random Time Sampling
- Systematic Work Sampling
- Stratified Work Sampling
- Worker Self-Recorded Work Sampling
- Work Measurement-Time Log Systems.

Additional guidance on standards for time sampling systems is provided in OMB Circular A-87, which contains the Federal cost principles for governmental organizations. The standard critical to each time sampling system discussed in this TAG is that the sampling method used must be statistically valid.

Measures of Effort Other Than Time. In some limited situations and for certain types of staff work, the cost of staff time can be allocated on a basis other than time distribution. This is most often done when some quantitative measure, such as units of work performed, direct expenditures, or participants served, provides an equitable basis for allocating staff time and related costs. The methods (such as transaction counts or units of work) used to allocate costs should be documented and maintained to support the basis of the allocation.

A common example is when personnel services costs are combined with other costs from the same cost category into a larger pool of costs, which is then allocated to final cost objectives based on direct expenditures or a basis other than time. This approach is often used for administrative cost pools.

Another application is when staff time and related costs associated with processing vouchers for payment are allocated based on a transaction count.

ALLOCATION BASES

When costs are pooled instead of being directly assigned to a final cost objective, the ability to directly assign benefit for each item of cost is lost. Instead, the pool contains a group of common costs to be allocated by using an indirect or approximate measure of benefit. The approximate measure of benefit is the allocation base. An allocation base is the method of documentation used to measure the extent of benefits received when allocating joint costs among multiple cost objectives.

Many different types of bases can be used in allocating costs. The most appropriate base will vary with the circumstances prevailing in each instance. An organization is likely to use several different bases for allocating different types of costs. Acceptable methods for distributing pooled costs may vary by type of organization, functional units or levels within an organization, types of cost to be allocated, and cost category. The basis used to allocate a particular type of cost should be used consistently over time and be described in the CAP. The development of CAPs is discussed further in this chapter.

Acceptable Allocation Bases

An allocation base is acceptable if it represents a fair measure of cost generation or cost benefit and if it results in an equitable distribution of the costs of services rendered or goods provided. Each base should be considered on its own merits as to the purpose for using it and the degree of equity it will achieve in allocating joint costs. In selecting a method, the additional effort and expense required to achieve a greater degree of accuracy should be considered. General criteria that should be used in selecting an allocation base include the following:

- **Minimal Distortion.** The base should distribute costs in a fair and equitable manner without distorting the results. This requires that the base be as causally related as possible to the types of costs being allocated so that benefit can be measured as accurately as possible.

Example: It is appropriate to allocate pooled intake costs based on the proportionate number of eligible applicants per program, since there is a direct relationship between incurring intake costs and determining eligibility. It also is appropriate to use the number of new enrollments by program as the basis for allocating intake costs when enrollments provide an equitable measure of effort, since the benefit of intake is the eventual enrollment of participants into the programs.

By contrast, it is much less appropriate to use job development costs as the basis for allocating pooled intake costs since there is a very limited relationship, and no causal relationship, between the base and the type of costs in the pool. The results are likely to be distorted when using this base for allocating this type of costs.

- **General Acceptability.** The base should be generally accepted and in conformance with GAAP. For example, it should be consistently applied over time. The base should also be drawn from the same period during which the costs to be allocated have been incurred.

Example: It is not appropriate to change the base for allocating pooled administrative costs from quarter to quarter, such as using direct program expenditures in the first quarter, number of participants served in the second quarter, and time distribution in the third quarter. It is also not appropriate to use last year's participant data as the basis for allocating this year's expenditures.

- **Represents Actual Cost or Effort Expended.** The base should be a measure of actual cost or actual effort expended. It should not be based solely on a plan, budget, job description, or other estimates of planned activity. **Note:** Initial allocation methodologies for shared One-Stop costs are addressed in Chapter I-3, *Proportionate Share and Cost Allocation.*

Example: Pooled administrative costs may not be allocated to grants or subgrants on the basis of the proportionate amount of funds available from each

funding source. It is generally not appropriate to use the relative amount of funds required to be spent as the basis for allocating this pool of costs since budgets are not a measure of actual activity or effort.

- **Timely Management Control.** The base should be within management's ability to control on a timely basis. The base should produce reliable and fairly predictable results. If the base is erratic and unpredictable, beyond management's ability to control, or not timely, it is likely to produce unacceptable results.

Example: If an organization uses lower-tier subrecipient expenditure or participant data as the base for allocating some of its organization-wide costs, it risks having the data used for allocation skewed by a poorly performing subrecipient. The organization also becomes dependent on timely reporting by its subrecipients to allocate some of its own costs. It would be better for the organization to use a base that is within the direct control of the organization's management.

- **Consistency with Variations in Funding.** The base must be able to accommodate and withstand changes in funding during the year and from year to year. If the base includes factors that are affected by variations in funding, it will produce distorted results.

Example: It is not appropriate to allocate costs using a basis that does not include all benefiting funding received during the year. If an organization operates a State-funded summer work experience program, then the basis for allocating case management costs would need to reflect changes in the mix of activities during the summer period, or the distribution of costs may not be equitable.

- **Materiality of Costs Involved.** The time and expense spent in developing the base should not be greater than justified by the materiality of the costs to be allocated. In other words, the grantee should not spend more on obtaining the information needed to allocate pooled costs than the dollars in the pool warrant. The base should be sufficiently detailed to provide the most equitable and accurate allocation possible. At the same time, the base should be simple enough to be efficient while still attaining a fair distribution of costs.

Example: It is not appropriate to fold a larger pool of costs, such as administrative staff costs, into another unrelated pool of costs rather than allocate the costs separately or to distribute staff costs equally among the programs. For pooled administrative staff costs, a base should be used that more accurately measures benefit to each program, such as direct time charges per program.

- **Practicality and Cost of Using the Base.** The base should be as efficient as possible in terms of the cost or effort in developing it. Thus, wherever possible, a data base that already exists in the financial or participant record keeping and reporting systems should be used rather than create a separate data base to be used only for allocating costs.

Example: It is appropriate and more efficient, without unduly sacrificing accuracy, to allocate participant transportation costs using current enrollment data that is already available, rather than creating a separate data base on the exact number of participants receiving transportation assistance by type of participant. On the other hand, if the transportation costs were part of an Individual Training Account (ITA), then the basis for distribution might need to be the number of participants whose ITAs included transportation.

What Is the Best Base?

There is no single answer to this question. The answer varies by type of organization, levels within an organization, organizational structure, method of program delivery, accounting and participant reporting systems, types of costs included in the pool, and availability of other types of data to use as a base. The general guidelines presented here can be used to help with decision-making.

When choosing among available bases, a base should be chosen that is more directly related to, and the better measure of, the costs being allocated and the benefits being received.

Example: Using the number of vouchers processed as the basis for allocating the costs of financial services is preferable to using the dollar value of those vouchers. The work performed in processing each voucher is fairly standard for each unit of work, regardless of the dollar value of the vouchers. As a result, the cost/benefit of the service is a function of the quantity of work units performed.

Subrecipients are encouraged to develop and use appropriate expenditure bases (such as salaries and fringe benefits and total direct costs) and participant bases (such as number of participants enrolled) to allocate joint costs. Where a subrecipient conducts several human services programs with multiple funding sources and uses an automated accounting system, an appropriate expenditure base is usually one that reflects time spent or participants served. This is also a more easily managed base than using multiple bases or a base dependent upon additional sources of information.

Possible Bases for Allocation

Some possible bases for allocation are shown on the chart on the following page. These are suggested bases only, and grantees are cautioned to review these bases for applicability to their programs. In addition, any base used for allocation of costs must comply with the requirements for an allowable base.

Possible Bases for Allocation

Accounting	Number of transactions; direct labor hours; allowable survey methods
Auditing	Direct audit hours; expenditures audited
Budgeting	Direct labor hours
Consumable supplies	Total direct costs; direct labor hours
Counselor	Direct labor hours; number of participants counseled
Data processing	System usage; direct labor hours
Disbursing service	Number of checks issued; direct labor hours
Fidelity bond	Number of bonded employees
Freight	Number of items shipped; cost of goods
Health services	Number of employees
Intake	Number of eligible participants; current period enrollments
Legal services	Direct hours
Motor pool costs	Miles driven; days used
Office machines and equipment maintenance	Direct machine hours; direct labor hours
Office space	Square feet of space occupied; staff salary distribution
Payroll services	Number of employees
Personnel services	Number of employees
Postage	Direct usage; acceptable survey methods
Printing/reproduction	Direct labor hours; job basis; pages printed
Procurement service	Number of transactions processed; direct hours of purchasing agent's time
Retirement system administration	Payroll; number of employees contributing
Telephone	Number of instruments; staff salary distribution
Travel	Mileage; actual expenses; direct labor hours
Utilities	Square feet of space occupied; staff salary distribution

Unacceptable Allocation Bases

In general, unacceptable allocation bases are those that do not meet the general guidelines discussed previously in this chapter. Unacceptable bases are those that:

- Distort the final results
- Do not represent actual effort or actual expenditures
- Are not used consistently over time and with variations in funding
- Do not have an integral relationship to the types of costs being allocated.

Some commonly used bases that fall into this unacceptable category include the use of:

- Relative funds available to allocate unassigned direct costs
- Job descriptions to allocate staff costs
- Fixed or predetermined number of staff hours assigned to an activity to allocate staff costs
- Planned participant levels to allocate participant-related costs
- Results from prior periods to allocate current period costs.

Bases developed from plans, budgets, or estimates usually cannot stand on their own as valid measures of benefit. They can be used only in very limited situations, such as when the results can be corroborated by, or later adjusted for, the results obtained by using an acceptable base. This requires that the base be verified as able to produce an equitable distribution of costs.

> **Example:** A work experience program is jointly funded by the State and the WIA Title IB Youth program. Each funding source plans to provide 10 participants. Start-up costs are incurred and billed to the funding sources before all participants are enrolled. It is appropriate to use planned activity levels as the basis for allocating these costs since full enrollment by both funding sources is expected. However, any deviation from the plan must later be adjusted using actual enrollment data.

Common Errors

A common error in choosing a base is to use a plan, budget, or other estimate of future effort or cost. In most circumstances, this type of base is not acceptable because it does not measure actual activity, effort, or cost, and, too often, later adjustments based on actual data are not made. In most instances, the most reliable measure of the amount of the cost incurred, the effort expended, and the benefit received can occur only when the activity is actually performed. Some grantees estimate (in their position descriptions, organizational charts, or other documents) the percentage of time their director or other staff members will be involved in the various ETA-funded programs. This estimate is useful for planning purposes but must eventually be supported by documentation of actual involvement in each program. Costs charged to the program based on the estimates will need to be adjusted to reflect actual time spent on ETA-funded activities. It is also common for grantees to determine the percentage of time their staffs will be involved in the various programs. Occasionally, this determination results in a

preassigned number of hours available for ETA-funded activities. Staffs are instructed to charge ETA and other programs according to the established hours. Again, this predetermination is useful for budget purposes; however, any costs charged to the ETA-funded program must be adjusted as necessary to reflect actual time spent on benefiting program activities.

We repeat the standard caution that a particular base may work in some circumstances and not in others, and that the ultimate test of appropriateness is whether the base used results in an equitable distribution of costs that reflects the level of effort or benefit received by the various cost objectives.

COST ALLOCATION PLANS

A CAP is a document that identifies allowable indirect and direct costs and is used to accumulate and distribute such costs. The CAP also identifies the allocation methods used for distributing the costs. A plan for allocating joint costs is required to support the distribution of those costs to the grant program. All costs included in the plan must be supported by formal accounting records to substantiate the propriety of the eventual charges.

Types of Allocation Plans

A distinction is made between two types of CAPs: the plans needed to allocate organization-wide and central services costs to individual departments within the organization (indirect cost plan), and the plans needed to allocate costs within a department to grants and other final cost objectives (CAP), as described below.

Indirect Cost Plan. The indirect cost plan identifies and distributes the costs of services provided by support organizations (such as personnel, treasury, security, legal) to departments or units administering Federal grants or contracts. At the State level, it is referred to as the State-Wide Cost Allocation Plan (SWCAP). Indirect cost/central service CAPs are usually approved by a cognizant Federal agency. Similar types of indirect CAPs for central services are also common to local units of government and to larger nonprofit organizations. Indirect cost plans are discussed further in a later section.

Cost Allocation Plan of the Department/Entity Administering ETA-Funded Programs. The second type of CAP distributes the administrative or other joint costs incurred within a performing (subrecipient or contractor) department or unit, together with the service costs allocated to it under the indirect cost proposal, to all work performed by that department or unit. This type of plan is developed by the unit that directly operates the ETA-funded program to allocate costs between its ETA-funded and non-ETA-funded programs, and between cost categories within each of the ETA-funded programs. This type of plan is commonly referred to as an organizational or departmental CAP. Another example of this type of CAP is the plan used to allocate the shared costs of the One-Stop among the participating partners. This CAP is discussed in Chapter I-3, *Proportionate Share and Cost Allocation.*

Contents of the Organizational or Departmental Cost Allocation Plan

The CAP should include at least the following elements:

- Organization chart that identifies all departments, types of services provided, and ETA- and non-ETA-funded staff functions.
- Description of the types of services provided and their relevance to ETA-funded projects (generally called a Function and Benefit Statement). This would include all ETA- and non-ETA-funded revenue sources and cost objectives.
- Copy of official financial statements or budgets.
- Expense items included in the cost of the services. This would include all joint or pooled costs needing to be allocated (such as staff whose work benefits more than one cost objective, cost pools established for administrative costs and other types of pooled costs, and all other costs that cannot be readily assigned to a single cost objective).
- Description of the methods used in distributing the expenses to benefiting cost objectives. This requires identifying the basis for allocating each type of joint or pooled cost and the documentation for supporting each basis for allocation.
- Certification by an authorized (sub)recipient official that the plan has been prepared in accordance with WIA or other authorizing legislation and regulations and State or other applicable requirements.

For ETA-funded entities that are charged indirect or central services costs, the CAP should also include:

- Identification of the departments rendering the service costs to benefiting departments (summary CAP)
- Summary schedule of the allocations of central service costs to operating departments.

The following suggestions should also be considered when developing a CAP:

- **Keep it simple.** The simplest and least costly method possible should be used, based on a measure of relative benefit received, that will produce an equitable allocation of costs to programs and cost categories.

- **Make it replicable.** The process that is developed must be able to be duplicated at any time and be able to accommodate changes in the organization or funding levels.

- **Simplify the organizational structure.** The organizational structure of the CAP should be made no more complicated than necessary to allocate costs.

- **Consider what is required.** The required structure and capabilities of the accounting system must be considered in designing an operable cost allocation process.

- **Make changes prudently.** Changes in an organization's CAP that result in a retroactive redistribution of costs to the benefiting cost objective are allowable where the change results in a more equitable distribution of costs. Such changes in allocation methodology should be rare, should receive the necessary prior approvals, and should be justified and well documented.

Value of Cost Allocation Plans

In addition to documenting the allocation of costs and the need for prior approvals, the CAP has other benefits and advantages for the organization, as listed below:

- **As a management tool**, provides a clear and concise method to develop budgets and prepare plans
- **Results in the equitable sharing of indirect costs** from all programs and activities, beginning with their appropriate recognition in the budget process
- **Eliminates arbitrary methods** sometimes used to account for all costs as direct costs in order to achieve full reimbursement
- **Establishes creditable fiscal accountability practices** that recognize indirect and shared costs as a necessary cost of program delivery
- **Establishes financial management standards and practices** that may be applied uniformly with all grantee agencies through the accounting and budgeting process
- **Creates financial management structures** that recognize that costs relative to programs or units of service consist of both direct and indirect costs
- **Promotes the use of up-to-date, integrated grantee accounting systems and procedures** within the organization, so that shared and indirect costs can be identified and allocated across all programs and activities
- **Meets Federal cost principles and standards** that require approved plans as a prerequisite to claiming reimbursement of indirect costs
- **Improves and standardizes** fiscal management policies and practices.

General Indirect Costs

General indirect, i.e., overhead/general and administrative (G&A), costs normally should be charged to the Administration Cost category, except that specific costs charged to an overhead or indirect cost pool that can be identified directly with an ETA-funded cost objective/category other than Administration may be charged to the ETA-funded cost objective/category directly benefited, as described and justified in the CAP. Under WIA, some of the costs normally included in general indirect costs may be classified as program costs rather than administrative costs. Further guidance is found in Chapter II-5, *Cost Classification*.

Governmental Grantees

Responsibility for approving the CAPs of most units of local government has been assigned by OMB to cognizant Federal agencies. Some LWIB grantees, especially those that are governmental agencies, have indirect cost rates that are already approved by a Federal agency.

The State or the unit of local government should request an agency review of the indirect rate if questions arise on the application of the indirect rate to the ETA-funded programs.

Nonprofit Agencies

In some cases, agencies do not have indirect cost rates but wish to establish a rate to facilitate charging indirect costs to their various Federal funding sources. OMB Circular A-122, *Cost Principles for Nonprofit Organizations*, applies to determining indirect cost rates for nonprofit organizations. For assistance in preparing indirect cost rate proposals, nonprofit organizations should use the *Indirect Cost Determination Guide* published by the DOL Office of the Assistant Secretary for Administration and Management, Office of Cost Determination. Indirect cost rate proposals are required when a nonprofit organization has more than one source of funding and elects to recover indirect costs as well as the direct costs for meeting grant or contract obligations. Where a nonprofit subrecipient is required to obtain an indirect cost rate, the awarding agency should provide technical assistance and may wish to review and approve the indirect cost rate.

ETA Subrecipients

State and local governmental agencies that are not staff to the LWIB or the recipient of local allocations, but that operate ETA-funded programs as subrecipients, often have indirect cost rates already approved by a Federal agency. These rates should be reviewed by the awarding agency to determine their appropriateness for ETA-funded programs. Any rate approved by the awarding agency should not exceed the rate approved by the Federal cognizant agency for Federal grants.

ALTERNATIVE TIME DISTRIBUTION

All OMB cost principles circulars treat the costs of personnel salaries and fringe benefits and require that such costs be based on a time distribution system. In a standard time distribution system, time sheets are usually used to record the amount of time spent on organization-sponsored (and Federally funded) activities. OMB Circulars A-87 and A-122 further require that time distribution include the use of a "personnel activity report." In addition to standard time distribution, the circulars authorize the use of alternative systems, subject to compliance with certain conditions.

Substitute systems may include random sampling, case counts, client counts, transaction counts, or other quantifiable measures of employee effort for a time period. Sampling and other measures should take into account relative effort and intensity of service provided to different categories of clients served. A substitute system must meet acceptable statistical sampling standards, including the following:

- The universe from which a sample of employees is taken must include all of the employees whose salaries and wages are to be allocated by means of the sampling.

- The entire time period for which salaries and wages are to be charged to a specific Federal grant must be covered.

- The results must be statistically valid and applied only to the time period to which the sample may be validly extrapolated.

- The results of the sampling system must be updated periodically to reflect changes in the measures used, such as case counts or client counts.

- The recipient must use a valid and uniform system for converting the measure of employee effort (such as case counts, client counts) into time.

OMB Circulars A-122 and A-87 require that an organization wishing to utilize alternative time distribution systems receive approval of that system from their cognizant Federal agency. Organizations that do not have a cognizant agency approval should obtain a certification from an independent auditor or auditing firm that the system meets the standards required for approval. Attachment II-8-1 contains a discussion of alternative time distribution systems and the documentation that would be required for approval. Attachment II-8-2 is a sample personnel activity report. This sample report is taken from guidance provided by the U.S. Department of Education (ED), titled *Indirect Cost Determination Guidance for State and Local Government Agencies* (1997). This guidance also contains an example of one such substitute system that would be approved for use in ED programs.

Attachment II-8-1

Alternative Time Distribution Systems

The use of these methods, and the documentation to support their use, may be submitted to the cognizant Federal agency for approval should an organization wish to use an alternative time distribution system. Those organizations without a cognizant agency should maintain the documentation described in these standards for review by the awarding agency and auditors as required.

TIME SHEETS AND CONTINUOUS TIME DISTRIBUTION

A time distribution system is a formal methodology used to accumulate labor costs associated with specific programs. Time sheets are generally used to record the amount of time each employee spends working on the various cost objectives.

Time Distribution in a Seamless Service Delivery System

Some agencies may have difficulty managing a conventional time distribution system in a seamless service delivery system environment. Substitute systems are available for meeting time distribution record requirements.

Instead of time distribution records such as a time sheet, recipients and subrecipients may use a substitute system for allocating salaries and wages for a particular time period. The substitute system may be used only if, before charging or allocating the costs, the entity obtains approval of such a system from its cognizant Federal agency. The standards listed below must be met for that approval to be granted. Organizations without a cognizant Federal agency should obtain a certification from an independent public accounting firm or another qualified auditor that meets the standards of independence in the General Accounting Office Government Auditing Standards that the system meets the following standards:

- The system is consistent with GAAP.

- The system distributes costs to various programs and cost objectives in a manner that is equitable to the government and to the programs or cost objectives in question in accordance with OMB Circular A-87 or A-122, and considers the benefit actually derived by each program or cost objective.

- The certification or approved system, together with its supporting documentation, must describe the system employed and be available for inspection by the DOL.

- The applicable record retention requirement applies to the certification and the supporting documentation upon which the certification and/or use of the system was based.

- Substitute systems may include random sampling, client counts, transaction counts, or other quantifiable measures of employee effort for a specific time period. Sampling and other measures should take into account relative effort and intensity of service provided to different categories of clients served.

- A substitute system that uses sampling methods may be certified to satisfy the requirements of this paragraph if it meets acceptable statistical sampling standards, including the following:

    - The universe from which a sample of employees is taken must include all of the employees whose salaries and wages are to be allocated by means of the sampling.
    - The entire time period for which salaries and wages are to be charged to a Federal grant involved must be covered.
    - The results must be statistically valid and applied only to the time period to which the sample may be validly extrapolated.
    - The results of the sampling system must be periodically updated to reflect changes in the measures used, such as case counts or client counts.
    - The recipient must use a valid and uniform system for converting the measure of employee effort (such as case counts, client counts) into time.

This certification does not constitute formal approval by a Federal awarding agency. If an organization receives assistance in developing the documentation for a substitute system or the above referenced certification, the auditing firm or qualified auditor that has provided this assistance for a substitute system may not also audit the system in question in connection with an organization-wide or single audit under OMB Circular A-133.

WORK SAMPLING AND WORK MEASUREMENT

Work sampling and work measurement are essentially time management. There are variations in the techniques and methods for conducting a work sampling study. This guide identifies certain basic rules to simplify the time management process.

Random Time Sampling

Random time sampling (RTS) is an objective method of estimating the amount of time spent during a given period by employees on their different work activities, programs, projects, or services. It is a technique of selecting random moments of time during the work period to observe and record the specific task or work activity being performed by each employee (or a sample of employees) at those random moments. It works like a camera that takes a snapshot of the situation at the instant of the snap. From these recordings made over a reasonable period of time, the percentage of all tallies that were recorded for each activity can be computed. When these percentages are multiplied by the total number of paid work hours (obtained from the payroll), estimates are derived of the number of hours spent on each activity.

Observer work sampling is by far the best known and most common of random time sampling techniques used. Using this technique, an observer makes rounds of the work area at random intervals and records what he or she sees. Each tally pertaining to each individual is an "observation." The route for making the rounds through an office or work area, and the sequence of checking each employee, may also be randomized.

At random moments of time throughout each day of the study period, a tally record is made of the activity on which each participating employee is working at that moment. One person serves as a recorder to make the tally, often with the help of the person being observed. After a number of days, these tallies can cumulate to a sizable number, so that the percentage of the total cumulated tallies that is associated with each activity approaches the true proportion of the whole organization's time spent on each activity. By obtaining the total paid time of the organization from the payroll records, a simple basis is provided for estimating the amount of time devoted to each activity, namely, by multiplying the activity percentages derived from the sample by the known total paid time.

RTS operates under the principles of probability and random sampling. Under these principles, a relatively small number of observations, provided they are made at random moments of time, will tend to reproduce the actual frequency distribution of the entire work time. The larger the number of random observations, the more closely the results will reflect the true percentage of time spent on each activity. Statistical formulas provide a basis for measuring the reliability of the time estimates using the total number of observations. Conversely, formulas exist for determining the number of observations that should be made to achieve a desired level of reliability for the resulting estimates.

Systematic Work Sampling

This technique obtains observations at evenly spaced or "systematic" intervals rather than at random intervals. This is, of course, contrary to the usual insistence that accuracy depends heavily on randomness. Some researchers maintain that, under certain conditions, sampling at regularly spaced intervals will give results that are statistically equal to or better than those obtained by sampling on a random basis. However, the exact nature of these "certain conditions" may be quite complex to analyze, and such analysis is best left to a skilled statistician.

Stratified Work Sampling

Stratified work sampling is a fairly common and useful variant, and, when used properly by a skilled technician, may be more accurate than simple random sampling. Stratified sampling consists of drawing a sample from two or more homogeneous groups or subgroups out of the total universe under study. It is a process of subdividing to get appropriate representation, particularly when it is suspected that the conditions or categories to be sampled are not constant, or in some manner are appreciably different in the various subgroups or strata under study. By separately random sampling subgroups with fairly similar characteristics, we get a truer picture of the whole than by random sampling from all groups combined.

Worker Self-Recorded Work Sampling

The self-recording technique allows each employee to record observations at a given signal, such as a bell or flicking lights. Since the intervals are relatively few in number, possibly 10 a day, and the recordings are made instantaneously, a comparatively high degree of objectivity is preserved, with minor irritation from interruption to work. Each worker merely makes a simple tally on a preprinted slip or form the instant the signal is given. Tally slips for each random interval should be supplied immediately after each interval to ensure that marking tallies is not postponed and to enhance objectivity.

Work Measurement – Time Log Systems

This measurement technique requires the use of a tool known as a time ladder. The purpose of the time ladder is to determine, in detail, the amount of time involved with performing various types of functions or services. Time ladders normally consist of three columns. One column has preprinted time information in increments of minutes. The second column is reserved to record the total units of time (minutes) worked on a specific function. The third column is used to record the code of the function. Time codes are developed that relate to the product or activity employees work on (such as intake, assessment, job search). All possible activities are assigned a code, including breaks. In general, employees participating in the study are expected to record the amount of time devoted to a particular product or activity by recording the code within the particular time period they worked on that product or activity. For example, if the code for intake was IN and an individual worked on intake from 8:00 a.m. until 9:45 a.m., he or she would impose a line across the Code column on the time ladder at 8:00 a.m. and impose another line at the time he or she stopped working on IN, which was at 9:45 a.m. The person responsible for tabulating the results could easily determine that 1 hour and 45 minutes were spent working on intake.

When developing a matrix to record the result of the work measurement exercise, care should be taken to ensure that the matrix is representative of activities. Subsequent to the development of the matrix, if there is an activity or position that cannot be identified with a particular cost objective or program (receptionist, intake worker), consideration should be given to excluding the position from the work measurement exercise and treating the activity as an "indirect" or shared work activity. The cumulative results at the end of the study period that are used to allocate time to specific programs are also used to allocate the "shared" time. The costs associated with the receptionist position would therefore be allocated utilizing the data base resulting from the review of all other work activity. The allocation of the shared or indirect time would be dependent on the time-based percentages resulting from the cumulative time measurement study.

Initial steps in implementing work measurement include the following:

(1) Analyze functions performed at the service delivery site and identify all activities.

(2) Identify programs served by the activities.

(3) Develop a master matrix and user instructions to incorporate the data identified in Steps 1 and 2.

(4) Develop codes to be used to record time usage. Where practical, time codes should be program-specific. Where program delineations cannot be made, time codes will be activity-specific only.

(5) Identify specific counts (volume of work) that will be needed to calculate time distribution.

(6) Develop/prepare instructions specific to the needs of the work measurement study.

(7) Select proper time period to ensure statistical validity.

(8) Determine staffing levels required to conduct the study and make assignments. This includes training.

(9) Train all staff involved in the study, including managers.

Attachment II-8-2

Sample Personnel Activity Report

Period Ending (1)_____ Fiscal Year _____

Name _____ Division or Department _____

Accounting Description		Account Number	Percent of Effort
Project	A		30
	B		30
	C		30
Administration			5
Cost Sharing			5
		Total Effort	100%

I hereby certify that this report is an after-the-fact determination of actual effort expended for the period indicated and I have full knowledge of 100% of these activities.

_____	_____	(2)_____	_____
Employee	Date	Responsible Official	Date

(1) Report must be prepared at least monthly and coincide with one or more pay periods.

(2) Supervisory official having first-hand knowledge of the activity performed by the employee.

Source: Indirect Cost Determination Guidance for State and Local Governments, U.S. Department of Education (1997)

Chapter II-9

Financial Reporting

INTRODUCTION

With few exceptions, electronic Web-based financial reporting for ETA-funded grants is now available. Web-based reporting provisions are relatively new, make financial information related to grants accessible to both ETA and grantees, and significantly reduce the required paperwork associated with Federal financial reports. The Web-based reporting system is known as the Electronic Information Management System (EIMS). This chapter provides a discussion of the required Federal financial reporting formats for the ETA grant programs addressed in this TAG. Along with the Federal reporting requirements, the chapter provides guidance on subrecipient reporting systems and briefly addresses the WIA annual report requirements. It also addresses the issues of correlating the reporting system with the accounting system.

This chapter contains the following sections:

- Federal Reporting Requirements
- Subrecipient Reports
- Annual WIA Performance Progress Report
- Additional Reporting Considerations.

FEDERAL REPORTING REQUIREMENTS

WIA Title IB Programs

Formula and other direct grantees are required to report the financial results of WIA programs in accordance with the requirements set forth by the Secretary of Labor. These requirements were provided in Training and Employment Guidance Letter (TEGL) 16-99 dated June 23, 2000. The Financial Status Reports (FSRs) are due no later than 45 days after the end of the report quarter and 90 days after the expiration of fund availability or when all funds are expended, whichever comes first. Recipients are required to report accrued expenditures separately for each source of funds cumulatively from the inception of each grant. Each source of funds constitutes a separate grant with its own unique grant number. In order to properly report costs, States and other direct grant recipients must establish a subrecipient reporting system that allows them to incorporate costs at all levels of the system into the FSRs submitted to the ETA.

There is one Federally required report for the Title IB program. The report has six formats:

- Statewide Activities (ETA 9076-A)
- Statewide Rapid Response (ETA 9076-B)
- Local Administration (ETA 9076-C)
- Local Youth Program Activities (ETA 9076-D)
- Local Adult Program Activities (ETA 9076-E)
- Local Dislocated Worker Program Activities (ETA 9076-F).

Each of the six formats is patterned after the Standard Form (SF) 269, the quarterly reporting format used throughout the Federal government for reporting grantee financial activity. Each format contains standard identifying information, funding year, and period covered by the report and requires grantees to report total Federal outlays (accrued expenditures), net of refunds, unliquidated Federal obligations, total Federal funds authorized, recipient (or non-Federal) outlays, and program income.

Additional breakouts are contained on the formats:

- Adult and Dislocated Worker reports: transfers of obligational authority between the Adult and Dislocated Worker programs (up to 20 percent)
- Statewide Activities report: outlays from recaptured local area funds and State administrative expenditures
- Youth Program Activities report: outlays by in-school and out-of-school youth eligibility categories and outlays for summer employment opportunities.

What the WIA Regulations Require

Section 185(d) of the Act requires that WIA recipients report outlays in accordance with instructions issued by the DOL.

The reporting requirements at 20 CFR 667.300 further amplify this requirement:

- 667.300(a) requires that States and other direct grant recipients must report financial, participant, and performance data in accordance with instructions issued by DOL/ETA. Reports shall be submitted no more frequently than quarterly within a time period specified in the reporting instructions.

- 667.300(b) states that a State or other direct grant recipient may impose different forms or formats, shorter due dates, and more frequent reporting requirements on subrecipients.

- 667.300(c) requires that financial reports shall be submitted to DOL by each grant recipient. Reported expenditures and program income must be on the accrual basis of accounting and cumulative by fiscal year of appropriation. If the recipient's accounting records are not normally kept on the accrual basis of accounting, the recipient shall develop accrual information through an analysis of the documentation on hand.

- 667.300(d) requires the reports to be submitted no later than 45 days after the end of each quarter. A final financial report is required 90 days after the expiration of a funding period or the termination of grant support.

In addition, 29 CFR 667.200(a)(5) requires that the addition method applies to program income earned by grantees and subgrantees. The reporting requirements reflect this requirement.

WIA Title ID Reports

Indian and Native American (INA) Program. The INA program uses a reporting format (ETA 9080) modeled after the SF 269 and modified to provide additional required information on outlays (or accrued expenditures). The report format provides for identifying information (name of grantee, award number, etc.), source of funds, and reporting period. Similar to the Title IB report requirements, outlays, total Federal obligations, total Federal funds authorized, and unliquidated obligations are required to be reported on a quarterly cumulative basis. For the INA program, expenditures are required to be reported by the following categories:

- Administrative
- Employment Services
- Training Services
- Other Program Services.

Reporting instructions, including definitions of each of the reporting categories, have been provided to grantees through Division of Indian and Native American Programs (DINAP) Bulletin 00-18, dated May 17, 2001. As a result of advances in reporting capabilities, INA grantees also are required to report electronically using a Web-based reporting system.

National Farmworker Jobs Program (NFJP). The reporting format required of NFJP grantees is similar to the reporting formats used in other WIA programs. The report format provides for identifying information, source of funds, and reporting period. Similar to the Title IB report requirements, total Federal outlays, total Federal obligations, total Federal funds authorized, and unliquidated obligations are required to be reported on a quarterly cumulative basis. NJFP grantees are required to report expenditures by the following categories:

- Administrative
- Related Assistance
- Other Program Services.

Reporting instructions, including definitions of each of the reporting categories, may be found on the ETA Web site, http://wdsc.doleta.gov/msfw/html/resource.asp. As a result of advances in reporting capabilities, NFJP grantees also are required to report electronically using a Web-based reporting system. Use of the electronic reporting system commenced with the report for the quarter ending March 31, 2002.

State Employment Service Agency (SESA) Reports. SESAs are required to use the SF 269 to report the financial results of the Wagner-Peyser, Unemployment Compensation, and the benefits portion of TAA and NAFTA grants. The SF 269 report is the standard financial report for the Federal government. The report format provides for financial results to be reported by outlays or accrued expenditures, net of refunds, total funds authorized, and unliquidated obligations and contains the same type of identifying information as previously discussed. Reports are to be submitted on an accrual basis, cumulative from grant inception. Grantees are to complete a separate SF 269 for each program for each funding source. Beginning with the third quarter of FY 2001 (the quarter ending March 31, 2001), State agencies have been required to use the Web-based reporting system. These instructions were provided to State agencies in TEGL 17-00, dated April 5, 2001.

Electronic Report Submission. The financial reports for the WIA Title IB and ID programs, and the Employment Service and UI grant programs are required to be submitted electronically, using a Web-based reporting system, which provides program-specific software containing required data elements. Instructions on the use of the reporting system and the required formats have been provided to grantees through the use of the TEGLs referenced above. Grantees are provided with passwords (for data input) and personal identification numbers (PINs) (for data certification). Instructions for completion of the required data elements have been embedded within the electronic reporting system. The next step in the process is the ETA Regional Office review for completeness and accuracy. After the Regional Office has accepted and certified the reports, the ETA National Office utilizes the data for analysis and providing output report information to DOL management, OMB, and the Congress. Reports may be modified only by the grantees, with the explanation for any adjustments noted in the remarks

section. A copy of reporting formats and instructions for their completion is available on the ETA Web site at http://www.doleta.gov/usworkforce.

The reporting formats are structured so that, when a grantee accesses the WIA or SF 269 reporting systems on the Internet, a menu appears that provides the grantee with a choice of program funding source and reporting quarter. Only the selected program funding source and reporting quarter will appear on the screen. When data is entered for a new reporting quarter, no previously entered cumulative data will appear on the format. Therefore, the new data for the reporting quarter must be added to previously submitted data to reflect cumulative data from the inception of the grant. Modification to previously submitted data may be made by selecting FY and reporting quarter for which the modification is to be made. Such modifications are to be explained in the comments section of the report.

When the grantees have submitted the report, ETA Regional Offices have the responsibility to review the data, resolve any apparent conflict, and approve the report. Once reports from two consecutive quarters are "Region accepted," the previous quarter's report will become LOCKED from any modifications. The data will still be available, but it will be READ ONLY. For example, once the September 30, 2001, quarterly report becomes Region accepted, then the June 30, 2001, quarter data becomes LOCKED, i.e., it can no longer be modified.

TAA/NAFTA/TAA Grant Reports. The Training and Administrative activities of TAA and NAFTA programs operated by the SESAs must be reported on the ETA 9023. The extended benefits portions of these programs are reported in the same manner as Unemployment Compensation programs using the Web-based SF 269 reporting format.

The ETA 9023 serves as both a funding request and an expenditure report. The format requires grantees to report outlays or accrued expenditures, total obligations, total Federal funds received, unobligated balances, commitments, the uncommitted balance, and additional obligational authority requested to be reported on a cumulative quarterly basis by source of funds. The report further requires breakout of the funding source by the following cost categories: Administration, Job Search/Relocation, and Training.

At this time, the reports for the TAA and NAFTA programs are certified, signed, and submitted to the appropriate Regional Offices of the ETA each quarter. However, ETA is developing a Web-based reporting system for these programs and plans to integrate the programs into the electronic report system utilized for other ETA grant programs.

Senior Community Service Employment Program (SCSEP). The SCSEP for older workers currently utilizes the SF 269 to report the financial activity of the grant. The report format provides for financial results to be reported by outlays or accrued expenditures, net of refunds, total funds authorized, and unliquidated obligations and contains identifying information, such as name of grantee and award number. Reports are to be submitted on an accrual basis, cumulative from grant inception. At this time, the SF 269 for the SCSEP is not submitted electronically but rather manually to the appropriate ETA Regional Office, and then to the National Office.

SUBRECIPIENT REPORTS

States and other direct grant recipients are responsible for ensuring the timeliness and accuracy of required Federal reports. In order to comply with this requirement, recipients must establish subrecipient reporting requirements that will enable them to submit the Federal reports no later than 45 days after the quarter end. Recipients may impose additional reporting requirements on their subrecipients. Following are suggestions that may assist recipients in complying with the Federal requirements:

- Require subrecipients to submit their reports within 30 days of the quarter end. This allows the recipient adequate time to verify the accuracy of the financial data submitted by the subrecipient prior to Federal report submission. This option is useful when the subrecipient must submit electronic reports; however, grantees should have a mechanism in place to report costs in the event of non-reporting by a subrecipient.

- Require subrecipients to report on a monthly basis, with reports due 20 to 30 days after the month end. This option allows the recipient to have a preponderance of the financial data in hand in the event of non-reporting by a subrecipient. This option will also provide the recipient with financial data that is useful in managing and monitoring subgrants.

- Require subrecipients to provide a written estimate of accrued costs if they are unable to produce a timely required expenditure report.

- Carefully review the Federal report formats and require additional information as needed to effectively manage the subgrant process. For example, recipients may wish to require a breakout of the costs associated with the Intake, Assessments, Eligibility Determination, and Case Management activities by the component parts in order to have a true picture of the costs of serving clients in core services. They may wish to track the costs of core vs. intensive services or the costs associated with ITAs in order to plan more effective service delivery systems. Recipients may also wish to have a breakout of costs by the contract line items, especially if there are line item restrictions in the subagreement.

ANNUAL WIA PERFORMANCE PROGRESS REPORT

The Annual WIA Performance Progress Report, required in 20 CFR 667.300(e) for WIA Title IB grantees, also calls for reporting financial data. While primarily a participant and performance report of the activities conducted under the three funding streams of Title IB, the Annual Performance Progress Report requires States to report the costs of program activities on an annual basis. The instructions for completion of the report are discussed in TEGL 14-00, dated March 5, 2001. The financial information is contained on Table N, Cost of Program Activities, in the Annual Performance Progress Report. The report is due December 1 of each year.

The report format calls for the reporting of cumulative program year expenditures for each of the WIA funding streams: Local Adults, Local Dislocated Workers, Local Youth

activities, Rapid Response, and Statewide Required Activities. Only program costs are reported, with the exception of the Statewide Activities, which includes both program and administrative costs. There is also a section for reporting Statewide Allowable Activities by activity. In this section, States are required to list activities for which 10 percent or more of the funds were spent, and they may list any costs and activities allowable under the 15-percent set-aside for Statewide Activities. Only program costs are included in this list.

ADDITIONAL REPORTING CONSIDERATIONS

Recipients and subrecipients need to recognize and address a number of issues in order to comply with the reporting requirements. These are listed below.

- All reporting formats require grantees to report program income earned as a result of grant activities. As the WIA requires the use of the addition method in accounting for program income, WIA report formats provide for program income to be reported by income disbursed using the addition method plus undisbursed income for total program income realized. Grantee accounting systems must allow for program income earned and expended to be tracked for reporting purposes. A discussion of cost classification is found in Chapter II-5, *Cost Classification*, and appropriate treatment of program income is discussed in Chapter II-7, *Program Income*.

- With the exception of the WIA Title IB report, reporting formats require grantees to report indirect costs as a separate reporting item. Grantees must indicate the type of indirect cost rate used, the base used (in dollars), the rate as applied to the base, and the total indirect costs claimed for the reporting period. Indirect cost rates are briefly discussed in Chapter II-8, *Cost Allocation and Cost Pooling*. States are not required to report their indirect costs rates on the SF 269. Field Memorandum (FM) 55-91 provided guidance on requirements for the financial reporting of Wagner-Peyser Base Grants. In this FM, Block 11 of the SF 269 was blocked out.

- States are to track and report expenditures separately on the SF 269 for the 90 percent and 10 percent funds under the Wagner-Peyser program.

- For UI operations reporting, States are to report in the remarks section (line 12) accrued expenditures (quarter) and obligations (year-to-date) separately for staff and NPS costs. [ET Handbook Version 16, State Quality Service Plans (SQSP) Chapter 11-3]

- Some of the reporting formats require that costs be displayed in a variety of program specific breakouts where there are additional regulatory required elements. For example, youth activities under Title IB must be reported by both in-school and out-of-school youth; the Title ID INA program requires reporting by program cost categories; and all report formats require that program income, both earned and expended, be reported. In order to simplify the accounting functions, recipients may wish to use linking spreadsheets to compile the information from the general ledger and post to the reporting format. The linking spreadsheet may also be used when the grantee operates a cash-based accounting system but

must submit reports on an accrued expenditure basis. Users are cautioned that the use of linking spreadsheets must be documented in sufficient detail to trace the costs from the report in an audit or when monitored. The documentation should be written and, at a minimum, describe each link from the general ledger to the report. Another method of accumulating the costs would be through the use of the chart of accounts to directly post the costs to the general ledger. The use of the chart of accounts is discussed in Chapter II-5, *Cost Classification*, which also includes a sample chart of accounts.

- Timeliness and accuracy of the reports are critical to a successful audit process and program management credibility. They are also critical to the success of reports ETA must make to the Congress.

Chapter II-10

Procurement

INTRODUCTION

This chapter provides guidance on the procurement of goods and services under the ETA-funded programs addressed in this TAG. It includes a discussion of the various methods available for procurement and the development of procurement policies and procedures, lists the required contract elements, provides guidance on the use of fixed-price contracts, and discusses additional requirements that may apply. Appendix E to this TAG provides guidance on distinguishing between subrecipients and vendors. This chapter contains the following sections:

- State and Other Governmental Grantees
- Nongovernmental Grantees and Subgrantees
- Required Contract Clauses
- Additional WIA Requirements
- Attachment II-10-1—Fixed-Price/Performance-Based Contracts.

STATE AND OTHER GOVERNMENTAL GRANTEES

The requirements pertaining to the procurement for State and local governmental grantees and subgrantees of goods and services are listed in 29 CFR 97.36. States are required to follow the same policies and procedures they employ for procurements using non-Federal funds. In addition, they are required to ensure that all Federally required clauses are included in all purchase orders and other agreements. All other governmental grantees and subgrantees are required to follow the requirements of 29 CFR 97.36(b) through (i).

Procurement Policies and Procedures

As stated above, States are required to follow the same procedures as are followed for non-Federal procurements. Local governmental and Indian tribe grantees and subgrantees may follow their own policies and procedures <u>if</u> they reflect State and local laws and regulations and the procurements conform to the standards of 29 CFR 97.36(b) through (i). Grantees and subgrantees are required to maintain a system for the administration of contracts. In order to comply with these requirements, grantees/subgrantees should maintain written procedures that, at a minimum, address the following standards:

- A contract administration system that ensures contractors perform in accordance with the requirements of any awards

- A written code of conduct for employees engaged in the award and administration of agreements. The grantee/subgrantee must also include the standards for conduct specified at 20 CFR 667.200(a)(4), which address conflict of interest provisions for State and local area grantee board members.
- Procedures that detail the requirement for a review of prospective procurements to avoid purchase of unnecessary or duplicate items, including analysis of lease vs. purchase
- A process that promotes the use of intergovernmental agreements for procurement or use of common goods and services, as well as the use of Federal excess and surplus property wherever possible
- A process to ensure that awards are made only to responsible contractors with the ability to perform successfully. The awarding agency standards should address integrity, compliance with public policy, past performance, and contractor resources (technical and financial) for prospective contractors.
- Documentation of each of the significant steps followed in making an award. These must include rationale for method of procurement, selection of agreement type, selection or rejection criteria, and the basis for the contract price, including the independent agency estimate of price.
- A settlement process. Grantees and subgrantees are solely responsible for the settlement of all procurement actions, including those related to source evaluation, protests, claims, and disputes. Violations of law must be referred to the appropriate local, State, or Federal agency having jurisdiction.
- Protest procedures to handle disputes related to both award and administration of contracts. Protest procedures must include available remedies, and the information related to protests must be disclosed to the awarding agency. Protestors must exhaust all grantee and subgrantee administrative remedies before pursuing a protest with a Federal agency, and any protest to the Federal level must allege a violation of Federal law or regulation or of the governmental grantee's violation of its own protest procedures.

Written procedures will also assist grantees and subgrantees to meet the requirements for procurement system certification that are contained in 29 CFR 97.36(g)(3) related to awarding agency review of proposed procurement actions.

Procurement Methods

Section 29 CFR 97.36(c) specifies that all procurement actions are to be conducted in a manner that provides for "full and open competition." Within the context of open competition, four methods are discussed in Section 97.36(d) by which agencies may procure goods or services. They are described in the following paragraphs.

Small Purchase. This is a relatively informal method used primarily to procure goods (supplies and equipment). If small purchase procedures are used, price or rate comparisons from an adequate number of qualified sources must be obtained. This method is appropriate only when price is the overriding factor and may be easily quoted and compared, delivery is standardized, and performance outcomes are not dependent upon the content of the goods being

procured. While the Federal threshold for small purchase is currently $100,000, the locally imposed threshold may be substantially smaller, and grantees/subgrantees must adhere to the lower threshold. **Note:** This is true even though 95.44(e)(2) has not been corrected to reflect the current level.

> **Example:** The agency has a need for automobiles. It compares the prices at three different sources and makes a selection based on price. The total procurement is approximately $31,000, under the agency threshold of $100,000.

Sealed Bids. Under sealed bid procedures, bids are publicly solicited, and the procurement is awarded to the lowest bidder, resulting in a fixed-price (either lump sum or unit price) contract. In order for this process to be feasible, three conditions must be met: complete and realistic specification of required goods or services is available and part of the solicitation, there are at least two responsible bidders, and the procurement may be made principally on the basis of price. A firm fixed-price contract may be awarded. This method is also used for complex technical specifications such as Information Technology (IT) acquisitions. The requirements for use of sealed bids are specific:

- The Invitation for Bid (IFB) is publicly advertised and bids are solicited from an adequate (more than two) number of known suppliers
- The IFB contains all "specifications and pertinent attachments" and defines the items or services to be procured in sufficient detail for the bidders to respond properly
- All bids are publicly opened
- A firm fixed-price contract is awarded to the lowest responsive and responsible bidder
- Any or all bids may be rejected if there is a documented reason.

> **Example:** The organization is looking to procure computer hardware, including printers, and peripheral hardware needed for establishing a network at the One-Stop. The exact specifications for the computer hardware, including numbers and required capacity, are contained in the IFB, published in the local newspaper, and sent to prospective suppliers. The award is a fixed-price contract to the lowest responsible and responsive bidder.

Competitive Proposals. Competitive proposals are used when there is more than one prospective bidder, the lowest price is not necessarily the determining factor for award, and either a fixed-price or cost-reimbursement agreement will be awarded. The competitive proposal method also meets the standards for "full and open competition" and is appropriate when the agency seeking goods or services is looking for a variety of methods that may be employed to achieve the results called for in the Request for Proposal (RFP). Often, the evaluation factors will focus on approach, program design, innovation, coordination, and experience. The following requirements apply:

- RFPs are publicized. They must contain the specifications that provide a common understanding for the proposed goods or services sought and identify all the evaluation factors and their relative importance or weight in selection of successful bidders.

- Proposals are solicited from an adequate number of qualified sources.

- A method for conducting technical evaluations of proposals and selection of awardees is in place.

- Awards are made to selected bidders whose proposals are most advantageous to the program based on price and the other evaluation factors.

> **Example:** An RFP is issued for prospective providers of training services for WIA Title IB Youth participants. The RFP is published and the submitted proposals are reviewed for responsiveness to RFP specifications, proposed performance criteria, and costs. Awards may be made to more than one successful bidder, and either fixed-price and cost-reimbursement contracts may be awarded, depending on the uniformity and predictability among individual providers and such factors as occupations, pay rates, number of training hours, etc.

> **Example:** The LWIB desires to issue an RFP and solicit proposals from prospective One-Stop operators. Again, the RFP is published and the submitted proposals are reviewed for responsiveness to RFP specifications, proposed performance criteria, and costs. The RFP criteria would be set by the LWIB and may include additional performance criteria related to One-Stop certification, etc. Awards may be made to more than one successful bidder. The contract in this instance would most likely be a cost-reimbursement contract for services rather than a fixed-price contract for performance.

Noncompetitive Proposals. This method is the solicitation of a proposal from a single source, or, after solicitation of a number (more than one) of sources, competition is determined inadequate to fulfill the requirements of the funding agency. If this method is used, the following requirements must be met:

- The award is infeasible under one of the methods discussed above, and one of the following conditions apply:

    - The item is available from only one source
    - Public emergency precludes delay (for example, a flood at the local day care center requires the immediate acquisition of additional services)
    - The awarding agency authorizes the specific noncompetitive procurement (upon a formal request for approval)
    - Competition is determined inadequate. This usually occurs after a competitive process has been used and there are insufficient bidders.

- For all noncompetitive procurement actions, a cost analysis is required. This entails verification of the proposed cost data and evaluation of the specific elements of costs and profits, including comparison with the agency's prior independent price estimate. Profit must

be separately negotiated in the award, and cost plus a percentage of cost agreements are not allowable.

Subgrantees may be required to submit the proposed noncompetitive procurement to their awarding agency (i.e., the State for formula subgrantees (i.e., the LWIB) or the direct DOL grantee) for review or approval.

Noncompetitive procurements are allowable under 29 CFR 97.36, but they are considered a "last resort" option and used only when there is a documented reason for sole source selection. Therefore, grantees should ensure that the competitive process is open and fair. They must exercise caution when using noncompetitive procurements.

> **Example:** An LWIB solicits proposals for the provision of youth services in a rural area, and only one bid is received. Rather than change the specifications and re-issue the RFP, the organization may enter into an agreement with the single bidder. Documentation to support the decision will be required, i.e., a cost analysis documentation that other procurement methods are infeasible and the awarding agency (the State) has approved the procurement. If required by the awarding agency, such an agreement would have to be approved by the awarding agency prior to execution.

NONGOVERNMENTAL GRANTEES AND SUBGRANTEES

Institutions of higher education, hospitals and other nonprofits, and commercial organizations that receive grants and subgrants under ETA-funded grant programs must follow the procurement standards of 29 CFR Part 95 found at 29 CFR 95.40-48. These standards are slightly different from the standards imposed on States and governmental grantees. The requirements for nongovernmental grantees are discussed in the following subsections.

Procurement Policies and Procedures

The standards to be employed under Part 95 are listed in 29 CFR 95.41-47. The standards are similar to those listed in Part 97 and are described as follows:

- Each recipient/subrecipient must maintain written standards of conduct, including conflict of interest provisions and disciplinary actions for violations. The conflict of interest standards must also address the requirements of 29 CFR 667.200(a)(4) related to State and LWIB members.

- Each recipient must maintain a system that provides for full and open competition whenever practicable. Awards should be made based on a responsive bid or offer and the one most advantageous to the recipient after consideration of price, quality, and any other factors contained in the solicitation.

- Each recipient/subrecipient must establish written procurement procedures that provide for

    - No purchases of unnecessary items
    - Analysis of lease vs. purchase options to determine the most "economical and practical" procurement.

- Solicitations that provide for the following:

    - Clear and accurate descriptions of the goods or services being procured. The description must not contain features that restrict competition.
    - All requirements that must be fulfilled and all other factors used in evaluating bids or proposals
    - Technical requirements described in terms of functions to be performed or performance required, including a range of acceptable or minimum acceptable standards
    - Specific features of "brand-name or equal" descriptions, if included in the solicitation
    - If procuring goods or certain types of services, the acceptability of metric measurements
    - Preference for ecologically sound and energy-efficient products.

Recipients are also responsible for the resolution of all contractual and administrative issues arising out of the procurements unless the issues concern violations of statute. Those matters are to be referred to the proper Federal, State, or local authority as may have jurisdiction.

In addition, recipient/grantee procurement practices should encourage the utilization of small businesses, minority-owned firms, and women's business enterprises whenever possible.

Procurement Methods

Section 29 CFR Part 95 does not prescribe specific methods for procurement, as does 29 CFR Part 97. The regulations require that procurements be conducted in a manner designed to provide full and open competition. [29 CFR 95.43] However, the four methods described earlier in this chapter are appropriate methods to procure both goods and services under the provisions of Part 95, with certain caveats:

- The small purchase threshold for Part 95 grantees and subgrantees is $100,000. This also applies to subgrants or subawards made. [29 CFR 95.2(ii)] Grantees are again cautioned that the small purchase threshold applicable to their organization may be lower.

- While there is not a requirement for prior approval from the awarding agency, unless the awarding agency specifically requires such an approval for noncompetitive procurements, any such procurements are always subject to review by the awarding agency. [29 CFR 95.44(e)] Awarding agencies may and do regularly add prior approval requirements to grants and subgrants.

REQUIRED CONTRACT CLAUSES

The type of agreement entered into by a grantee or subgrantee may be fixed price or cost reimbursement, depending on the method of procurement and goods or services being procured. Each agreement funded by the ETA grant programs must contain the specific clauses referred to in 29 CFR 97.36(i), or 29 CFR 95.48, and Part 95, Appendix A, as appropriate. They are listed below. **Note:** Not all clauses listed below are required for every type of grantee or subgrantee.

- For all contracts in excess of the small purchase threshold, administrative, contractual, or legal remedies where contractors violate or breach contract terms. The clause must also provide for sanctions or penalties, as appropriate.
- Termination for cause and for convenience by the awarding agency, including the process for exercising the clause and any basis for settlement (applies to contracts in excess of $10,000 (Part 97) or contracts in excess of $100,000 (Part 95))
- Access to records by the awarding agency, the grantee, the DOL, or the Comptroller General of the United States for the purposes of audit, examination, excerpts, and transcriptions (for other than small purchase transactions)
- Notice of awarding agency requirements and regulations related to reporting
- Notice of awarding agency requirements and/or regulations related to patent rights, copyrights, and rights in data
- Record retention requirements as specified in 29 CFR 97.42 or 29 CFR 95.53
- Compliance with Equal Employment Opportunity provisions in Executive Order (E.O.) 11246, as amended by E.O. 11375 and supplemented by the requirements of 41 CFR Part 60. These are codified for DOL programs at 29 CFR Parts 33 and 37.
- Compliance with Sections 102 and 107 of the Contract Work Hours and Safety Standards Act (40 U.S.C. 328 and 333) (all contracts in excess of $2,500 that involve employment of mechanics or laborers and all construction contracts in excess of $2,000)
- Compliance with the applicable standards, orders, or requirements issued under Section 306 of the Clean Air Act, Section 508 of the Clean Water Act, E.O. 11738, and Environmental Protection Agency regulations (40 CFR Part 15) (applies to contracts, subcontracts, and subgrants in excess of $100,000)
- Mandatory standards and policies related to energy efficiency, which are contained in the State energy conservation plan issued in compliance with the Energy Policy Conservation Act (Public Law 94-163)
- A provision requiring compliance with the Byrd Anti-Lobbying Amendment (31 U.S.C. 1352). This requirement is also found in 29 CFR Part 93.
- A provision requiring compliance with the debarment and suspension requirements (E.O. 12549 and 12689). This requirement is also found in 29 CFR Part 98.
- Compliance with the provisions of the Davis-Bacon Act for construction contracts in excess of $2,000
- A provision requiring compliance with the Copeland Anti-Kickback Act (construction and repair awards).

Grantees and subgrantees must also use the contract provisions to include other requirements of the WIA or other ETA grant program, as appropriate. These include provisions related to the following:

- Applicability of the appropriate ETA program and administrative regulations
- Audit requirements of 29 CFR Parts 96 and 99.

ADDITIONAL WIA REQUIREMENTS

In addition to the requirements of 29 CFR Part 97 or Part 95, the following requirements apply to procurements and agreements funded under the WIA:

- All agreements between LWIBs and units of government must be cost-reimbursement. [20 CFR 667.200(a)(3)] There is no provision for profit with governmental agencies.

- If a fixed-price agreement with a governmental or nonprofit agency results in revenues in excess of actual costs incurred, the excess revenues are considered to be program income. [20 CFR 667.200(a)(6)] Any such fixed-price agreements should reference this requirement.

- The local workforce investment plan must contain a description of the competitive process used to award grants and contracts under all programs funded under WIA Title I. The description must also include the process used to procure training services outside the ITA process. [20 CFR 661.350(a)(10]

- The procurement requirements for services to be provided under WIA Title IB Youth programs are specified in Section 123 of the Act. This section requires that activities and services for youth be competitively procured. Small purchase procedures can be used to purchase a training slot for a youth at a training institution if allowable under the agency's procurement policy. Additional guidance on the procurement of youth services is found in TEGL 9-00, dated January 23, 2001; TEGL 12-01, dated February 21, 2002; and the WIA Youth Program RFP Guide (which may be downloaded from www.doleta.gov/youth_services/techassistance.asp).

- The procurement requirements addressed in this chapter do not apply to the identification of eligible training providers. The process for identification of eligible training providers for training services under WIA Title IB programs is described in 20 CFR Part 663, Subpart E. The State is responsible for the development and maintenance of a State-wide training provider list. While not a Federal requirement, each grantee should have a formal agreement for services when a training provider is to deliver services. This may be in the form of a purchase order, contract, voucher, or other mechanism that provides for payment information and may be incorporated or referenced in the individual ITAs. Payment of proposed training services listed in the ITA is covered in Chapter II-6, *Cash Management*.

Subrecipients and Vendors

Appendix E to this TAG provides the distinguishing characteristics of subrecipients and vendors and a side-by-side comparison of characteristics to aid grantees/subgrantees to make the appropriate designation of subrecipients and vendors.

Attachment II-10-1

Fixed-Price/Performance-Based Contracts

A number of issues surrounding the use of fixed-price/performance-based contracts (FP/PBCs) may impact their suitability as agreements under any ETA-funded program. The following discussion is intended to provide guidance to grantees and subgrantees on the appropriate use of and accounting for these types of agreements.

FP/PBCs are structured so that payments are earned only with delivery of the agreed, precisely defined, measurable outcome(s). Under FP/PBCs, there is no obligation to pay the awardee unless satisfactory delivery is achieved, unlike cost reimbursement contracts. The cost reimbursement agreements contain line item budgets and base their cost claims on "best efforts" to attain the intended results. The attraction of FP/PBCs stems not only from this no-results/no-payment feature, but also from the fact that risk, responsibility, and approach are primarily the burden of the contractor, thereby lessening the amount of required grantor oversight. Efficient, effective delivery would be expected to enhance the margin of earnings in excess of the awardee's costs, while poor performance could mean the awardee would experience a significant financial loss. However, both the WtW and the WIA regulations specify that, for nonprofit or governmental organizations, the excess revenue over the costs must be treated as program income. This requirement is discussed in Chapter II-7, *Program Income*.

The ETA and its regulations provide no specific guidance on the topic of performance contracting. However, the procurement requirements of 29 CFR Parts 95 and 97 require that,

- For costs to be allowable, they must be reasonable and necessary
- Procurements must be competitive (and qualifying exceptions to full and open competition must be justified) and not reflect conflict of interest
- Documentation of the procurement process must include bases for source selection and pricing.

In addition, costs incurred under the various ETA grant programs are required to be allocated among the specified cost categories or funding sources in accordance with benefits received. Equitable assignment of costs among benefiting cost categories has historically been a challenge for most fixed-price agreements.

One solution to the problems of how to ensure reasonable pricing and proper allocation of costs among the cost categories for FP/PBCs would require the following:

- Thorough cost/price analysis in accordance with Parts 95 and 97. Such analysis would be done from a line item budget provided by the offeror that (a) reflected resource inputs distributed among cost categories, and (b) resulted in a reasonable cost/price analysis conclusion by the grantor, including the assignment of resource inputs to proper cost categories.
- This cost/price analysis would be documented and subject to review

- The offeror would have certified in writing that its cost and pricing data were accurate, complete, and current to the best of its knowledge at the time of submission.

Costs incurred under such an agreement would then be allocated among the benefiting cost categories based on the ratios established in the cost/price analysis. As stated, this is a proper solution to the problems associated with allocating costs. Other solutions may be available to the grantee; however, caution must be exercised to ensure adherence to the procurement requirements of Parts 95 and 97 as well as the cost principles contained in the appropriate OMB circulars.

FP/PBCs for the purchase of training services are vulnerable to several kinds of problems. Under WIA programs, this may be more of an issue with the Youth programs where all services must be contracted. The Adult and Dislocated Worker programs use ITAs to fund training services, for the most part; however, most intensive services are contracted as are on-the-job training (OJT) and specially developed training services. Therefore, any grantor agencies that choose to use this form of agreement should be alert to avoid some of the more common hazards:

- **Benchmarks.** To moderate what otherwise might be an unacceptably high risk potential faced by FP/PBC awardees, these contracts are frequently structured to provide separate payment points, each compensating for some documented unit or increment of progress toward achievement of the ultimate contract objective. The dollar value assigned to each of these payment points should ensure that the contractor cannot recoup its costs before the final objective is achieved. Furthermore, the work should be benchmarked so that sufficient funds are held back to encourage full performance. The performance being rewarded should focus on the participant's achievement. Thus, the process of enrolling a participant should not be identified as an incremental payment point if enrollment is primarily an achievement of the contractor, not the participant. Finally, it should be recognized that fragmenting the units of delivery into smaller and smaller increments diminishes the risk that is presumed to exist when pricing this form of agreement.

  Example: Successfully reaching mid-point of a training course (documented by mid-term grades) is defined in the contract as a partial or incremental payment point, with completion of the training defined as another incremental payment point, and training-related placement, still another. Additional compensation is sometimes paid for placements into jobs paying wage rates above prescribed levels. In this example, the benchmarks are structured to reward achievement by the participant.

- **Umbrella Contracts.** Similar performance can frequently be attained from very different levels of effort or forms of program intervention. Recognition of this possibility should result in clearly listing and separately pricing performance outcomes attributable to different methods of delivery. When an agreement structures delivery under such an umbrella of opportunities, it is imperative that each kind of intervention be separately recognized and separately priced.

Example: An agency compensates all placements at a fixed amount ($800 each). The agency should be prepared to receive varying results if it has written an "umbrella" contract that permits placements to result from different program activities. If the contract includes OJT, job search assistance (JSA), customized maturity skills/pre-vocational intensive services, and post-secondary individual referral slotting into vocational training, and each of these activities could result in placement of individuals enrolled in them, then the structuring of delivery in this manner encourages primarily the short-term, low-cost forms of intervention. Therefore, while the grantor agency might think it had priced delivery to reflect success from a balanced mix of activities, the inducement for the contractor seeking to maximize profit would be to overload enrollment in the two-week JSA course in order to ensure the lowest possible cost per placement.

Example: If provision of supportive services had been part of the mix in the above example, there may be additional consequences. Supportive service needs are unique for each individual participant, and the extent of their needs is difficult to forecast. Therefore, it would be a mistake to attempt to predict and build into the $800-per-placement rate an average supportive service cost per participant served. The inducement generated by such an action would be for the contractor to avoid enrolling anyone who might be expected to need supportive services. Instead, the grantor should provide a separate pool of funds to cover estimated supportive services needs, available on a cost reimbursement basis only. Similar analysis for employer costs of providing OJT leads to a similar conclusion that, because the number of OJT opportunities, kinds of jobs, and rates of pay cannot be forecast, only the cost reimbursement form of compensation should be provided for recoupment of employer OJT costs.

- **Control of the Applicant Pool.** Performance-based contracts should entail sufficient risk to justify performance as the basis for compensation. Efforts to include reasonable performance risk in the contract can be nullified if the contractor is permitted to end-run the risks by recruiting and enrolling the most job-ready among the eligible population. Therefore, it is essential to include as part of the contract a profile of the kinds of individual educational, skill, and experience deficiencies that the grantor agency seeks to target and overcome in order to ensure delivery of real added value benefit. However, "[E]xcept where service to specific populations is authorized by Statute (such as WIA Section 166), it is unlawful under WIA Section 188(a)(2) and 29 CFR 37.6(b)(1-6) for One-Stop systems to use demographic characteristics to determine which individuals will receive services." [WIA Final Rules, Preamble, published in the *Federal Register*, 65 Fed. Reg. 49294, 49344 (2000)]

  Example: An agency enters into a fixed-price contract to provide job readiness activities to WtW participants. As part of the contract, the agency specifies that participants must meet the eligibility requirements of 20 CFR 645.212. In this way, the agency has assured that the hard-to-employ participants will be receiving the specified services, rather than individuals who qualify under the other WtW eligibility requirements.

- **Causation.** FP/PBCs can foster innovative delivery approaches and significant cost savings. However, care must be taken to ensure the likelihood that the activities being paid for are principally responsible for the delivery sought.

  Example: An agency contracted for weekly delivery of not fewer than five bona fide job vacancies suitable for participants completing the training program. After paying for delivery over several months, the grantor began to notice a coincidence between what it was buying and want ads in local Sunday newspapers. In fact, it was paying premium prices for information otherwise available in the public domain. The resources the grantor had thought would be necessary for this project were not, in fact, meaningfully involved in causing delivery under the FP/PBC.

- **Third-Tier Delivery.** The core of work identified for delivery under performance contracts should be consistent with participant objectives intended to be achieved and compensated under the award. It is desirable that the core of the work be delivered directly by the awardee rather than permitting the awardee to broker the work through subagreements with other agencies (brokering OJT with employers is an exception). Additionally, if multiple tiers are enlisted, and each sub-tier absorbs resources, fund availability may be so depleted at the level where the core activity is actually provided that only short-term training intervention would be possible.

  Example: An agency enters into an agreement to provide placement services to WIA Title I Adult participants. The subgrantee then enters into a number of subagreements for placements. The agreements are structured so that payments are made only for completion of the primary activity, i.e., placement in unsubsidized employment.

Another way in which third-tier delivery may be faulty is if the subgrantee claims compensation for performance based on lower-tier agencies actually providing uncompensated services that are readily available at no cost/lower cost to the subgrantee within the community.

Example: A FP/PBC between an agency and an LWIB specifies delivery of vocational training to result in specific achievement rates, including completions and training-related placements at a designated median wage rate. Results are to be compensated on incremental performance basis, with full delivery valued at $1,200 per participant. Six months into the contract period, monitoring of the contract by the LWIB reveals that the agency has hired no one to teach the vocational classes from which it is claiming compensation for completions and placements. The monitoring further reveals that (1) the entity actually providing the training is the local community college; (2) tuition, fees, books, and supplies total less than $200 per student; (3) all participants have been referred to the college by the agency; (4) the majority of participants are eligible for and receiving Pell grant assistance (U.S. Department of Education funds); and (5) according to interviews with a sample of participants, they all indicate having found their placements without assistance from the agency.

For-profit enterprises are entitled to retain earnings above costs attributable to their FP/PBCs. Profits should be allocated among the cost categories in proportion to the allocation of costs among the cost categories. For governmental and nonprofit agencies under WIA Title I (except Job Corps and WtW), however, earnings above costs are regarded as program income subject to reprogramming or remittance as provided by 29 CFR 95.24 or 29 CFR 97.25. A discussion of program income requirements is found in Chapter II-7, *Program Income*. Consequently, a provision is often included in FP/PBCs for governmental and nonprofit agencies limiting the recovery of costs to the lesser of actual costs incurred or the cumulative increments earned for less than full performance.

Auditing of FP/PBCs focuses on verification that the delivery for which costs were claimed and paid was sufficiently documented to justify its compensation, i.e., documentation of participant achievement is the primary object of verification.

Chapter II-11

Property Management

INTRODUCTION

This chapter provides guidance to program operators on the acquisition, management, and disposition of property acquired under ETA-funded programs. It contains the following sections:

- Real Property
- Equipment
- Federally Owned Equipment (Property)
- Exempt Property
- Supplies
- Intangible Personal Property
- Other Property Management Considerations.

The types of property requirements discussed in this chapter relate to property acquired by grantees and subgrantees with ETA grant funds. As discussed further in this chapter, Federally owned property is not expected to be made available for use in these programs.

Charts showing types of property and application of property regulations are included at the end of this chapter as Attachments II-11-1 and II-11-2.

What the Regulations Require

For State, local, and Indian tribal governments, requirements governing the title, use, and disposition of equipment and supplies purchased with grant funds are the "Common Rule" requirements found at 29 CFR Part 97, *Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments*. These requirements apply to governmental entities that are recipients or subrecipients of Federal grant funds. Nonprofit entities, institutions of higher education, and commercial organizations must follow the requirements of OMB Circular A-110, as codified at 29 CFR Part 95. These requirements apply to both direct recipients and subrecipients.

The Part 97 regulations address property requirements for governmental recipients and subrecipients at Sections 97.31 (Real Property), 97.32 (Equipment), 97.33 (Supplies), and 97.34 (Copyrights).

The Federal requirement that generally applies for recipients and subrecipients that are institutions of higher education, hospitals, and other nonprofit organizations are set out in the DOL regulations at 29 CFR Part 95. The property standards are found at Sections 95.30 through 95.37.

Nonprofit organizations subject to these regulations will, most often, be subrecipients that receive awards from higher tier recipients or subrecipients, or will be recipients under the competitive grant award process. Commercial organizations that receive grants and subgrants are also covered under Part 95. However, unlike Part 97, the Part 95 regulations do not use the terms "grantee" and "subgrantee." Instead, only the term "recipients" is used. 29 CFR 95.5, *Subawards*, makes the Part 95 regulations applicable to subrecipients also. Therefore, in reading Part 95, the term "recipient" should be read to include the term "subrecipient." This TAG section uses the term "subrecipient" throughout, although Part 95 applies equally to recipients and subrecipients.

Several provisions of the Part 95 regulations related to use and disposal of property require approval of the DOL Grant Officer. The authorizing regulations for most ETA grant programs have delegated this approval authority to the Governor for formula grantees only. The prior approval requirements for equipment acquisitions of $5,000 or more are discussed more fully in OMB Circular A-122, and Chapter II-4, *Allowable Costs*.

REAL PROPERTY

The rules for the title, use, and disposition of real property are established at 29 CFR 97.31 and 29 CFR 95.32. The provisions state that title to the property is vested in the grantee acquiring the property and may not be encumbered without the express permission of the ETA. Nongovernmental grantees may also request written permission from the ETA to use the property for another Federally funded program (equity remains with the DOL) when it is no longer needed for the specific grant purpose of acquisition. Both governmental and nongovernmental grantees must request disposition instructions from the ETA when these conditions no longer apply. The ETA may instruct the grantee to sell the property under guidelines provided by the ETA and reimburse the Government for its equity share of the proceeds, or the grantee may retain title to the property after compensating the ETA for its equity share, among other options. For ETA grant programs such as Wagner-Peyser or TAA/NAFTA/TAA, these regulations and the specific program regulations apply to the acquisition, use, and disposition of real property.

With limited exceptions, the purchase or construction of real property is prohibited for the WIA Title I program and WtW programs [OMB cost principles and 20 CFR 645.300(b)(1)(i-ii) for WtW and 20 CFR 667.260 for WIA Title I programs] unless specific conditions are met

and the expense is specifically authorized by the ETA. For WIA Title I programs, these exceptions are

- Requirements for physical and programmatic accessibility and reasonable accommodation as required by the Americans with Disabilities Act (ADA) of 1990 and the Rehabilitation Act of 1973, as amended
- To fund repairs, alterations, and capital improvements of State Employment Service Agency (SESA)-owned real property or JTPA-owned property transferred to the WIA Title I program
- Job Corps facilities
- To fund disaster relief employment projects.

Capital improvement costs are also governed by the allowable cost standards found in the OMB circulars, which require prior approval of the grantor agency and specify the treatment of costs. Renovations or tenant improvements of One-Stop center facilities would fall under the cost principles. Thus, for One-Stop improvements, two options exist: (1) the partner programs fund their fair share of the cost at the time the cost is incurred, or (2) one of the partner entities (not a program) pays for the improvement and recover its costs through a depreciation schedule.

EQUIPMENT

Equipment is defined at both 29 CFR 97.3 and 95.2 as tangible, nonexpendable personal property having a useful life of more than one year and an acquisition cost of $5,000 or more per unit, including all costs related to the property's final intended use. Grantees may use their own definition of "equipment" provided it meets the minimum standards discussed above. The prior approval requirements for capital asset acquisitions of $5,000 or more are discussed in the OMB cost principles and Chapter II-4, *Allowable Costs*.

States

29 CFR 97.32(a) establishes that title to equipment vests, upon acquisition, in the recipient or subrecipient, i.e., whoever acquired the equipment. As to use and disposition, no requirements are imposed on State recipients and subrecipients beyond the following: "A State will use, manage, and dispose of equipment acquired under a grant by the State in accordance with State laws and procedures..." [29 CFR 97.32(b)] This provision intends for State requirements applicable to equipment acquired with both WIA and other ETA-funded grants to be the same as for equipment acquired with other Federal grant funds or with State funds. State recipients and subrecipients have no obligation to the Federal government for WIA- and ETA-grant-funded equipment they acquire beyond compliance with State standards for the use, management, and disposition of equipment.

Other Governmental Entities

With respect to equipment acquired with ETA-funded grants by governmental recipients/subrecipients other than States, the Federal standards contained in paragraphs (c)

through (e) of 29 CFR 97.32 apply. Those Federal standards provide that the acquiring entity must use the equipment in the program or project for which it was acquired as long as it is needed, whether or not the project or program continues to be supported by Federal funds. When no longer needed for the original program or project, the equipment may be used in other activities currently or previously supported by a Federal agency. The acquiring entity must make the equipment available for use on other projects or programs currently or previously supported by the Federal government, to the extent that such use will not interfere with its use in ETA grant programs. Preference for other use shall be given to programs or projects supported by the DOL. User fees should be considered, if appropriate, and treated as program income. [29 CFR 97.25] The equipment cannot be used to provide services for a fee to compete unfairly with private companies that provide equivalent services, unless specifically permitted or contemplated by Federal statute. With the approval of the awarding agency, the acquiring agency may trade in or sell equipment and use the proceeds to purchase replacement equipment.

The acquiring agency must meet the following minimum equipment management standards:

- Property records must be maintained that include the following data for each piece of equipment: description; serial number; funding source of property; title holder; acquisition date and cost; percentage of Federal participation in the cost; location, use, and condition of the property; and ultimate disposition data including date of disposal and sale price.

- A physical inventory of the property must be taken and the results reconciled with the property records at least once every two years.

- A control system must be developed to ensure adequate safeguards to prevent loss (including acts of nature such as floods and earthquakes), damage, or theft of the property. Any loss, damage, or theft must be investigated.

- Adequate maintenance procedures must be developed to keep the property in good condition.

- If property is sold, proper sales procedures must be established to ensure the highest possible return.

If equipment with a current per-unit fair market value of $5,000 or more is no longer needed for the original project or program (or for other activities currently or previously supported by a Federal agency), it may be retained or sold and the awarding agency compensated. The awarding agency's share of the proceeds is determined by multiplying the current market value (or the proceeds) by the awarding agency's share of the equipment. The awarding agency may dispose of the equipment if the acquiring agency does not take appropriate action.

Equipment items with a current per unit fair market value of less than $5,000 may be kept, sold, or disposed of with no obligation to the awarding agency.

29 CFR 97.32(g) establishes the right of the Federal government to take title to equipment acquired with grant funds or to direct the transfer of title to a third party. Specific requirements to implement that right are specified in paragraph (g). There is no provision that extends this right of the Federal government to lower levels, i.e., recipients or subrecipients; however, there is also no prohibition against extending this right. WIA and other ETA-funded entities may wish to explore this avenue on a case-by-case basis.

Nongovernmental Entities

Equipment is tangible, nonexpendable personal property having a useful life of more than one year and an acquisition cost of $5,000 or more per unit that was charged directly to the grant or subgrant. If the cost of the equipment was not charged directly to the grant or subgrant at the time of acquisition, but a depreciation expense is being charged over the useful life of the asset, or a use allowance is being charged, such equipment does not fall under the requirements of Section 95.34. For nonprofit organizations, the allowable cost guidelines in OMB Circular A-122, Attachment B, Item 11, *Depreciation and Use Allowances*, would apply. For other nongovernmental organizations, the appropriate cost principles apply.

Title to nonexempt equipment acquired with Federal funds vests in the subrecipient, subject to the use and disposition conditions of 29 CFR 95.34(b) through (g). The subrecipient has the right to use the property in the project for which it was acquired as long as it is needed, whether or not the project continues to be supported by ETA grant funds. When no longer needed for the original project, the subrecipient shall use it in connection with its other Federally sponsored activities. Priority shall be given to other activities sponsored by the ETA. [29 CFR 95.34(c)]

While the equipment is being used for the project for which it was originally acquired, the subrecipient shall make it available for other uses that do not interfere with project work. First preference will be given to other ETA-sponsored projects, with second preference to other Federally supported activities. User charges shall be treated as program income. [29 CFR 95.34(d)] The subrecipient shall not use equipment acquired with grant funds to provide services to non-Federal outside organizations for a fee that is less than private companies charge for equivalent services, for as long as the Federal government retains an interest in the equipment. [29 CFR 95.34(b)]

The acquiring agency must meet the following minimum management standards. These standards are similar to those required of non-State governmental entities.

- Equipment records must be maintained that include the following data on the equipment: description; identification number; funding source; title holder; acquisition date; percentage of Federal participation in the cost; location, condition, and last inventory date; acquisition cost; and ultimate disposition data including date of disposal and sale price or current fair market value, including the method used to determine the value.

- A physical inventory of the equipment must be taken and the results reconciled with the equipment records at least once every two years. The subrecipient must verify the existence, use, and need for the equipment.

- A control system must be developed to ensure adequate safeguards to prevent loss, damage, or theft of the equipment. Any loss, damage, or theft shall be investigated.

- Adequate maintenance procedures must be developed to keep the equipment in good condition.

- If equipment is sold, proper sales procedures must be established that provide for competition to the extent practicable and that result in the highest possible return. (When acquiring replacement equipment, the subrecipient may use the old equipment as a trade-in or use the sale proceeds to offset the cost of the replacement equipment, subject to written approval of the DOL Grant Officer.)

When the equipment is no longer needed, the subrecipient must comply with the following standards. For equipment with a current per-unit fair market value of less than $5,000, Part 95 is silent, i.e., the subrecipient has no further obligation to the DOL or the awarding agency. For property with a current per-unit fair market value of $5,000 or more, the subrecipient may retain the property for other uses, provided that compensation is made to the DOL. The subrecipient shall compute amounts due to the ETA by applying the percentage of ETA participation in the cost of the original grant or agreement under which the property was obtained to the current fair market value of the property. If the subrecipient has no further use for the property, disposition instructions are to be requested of the ETA. The following procedures, as prescribed in 29 CFR 95.34(g)(1) through (4), will apply:

- If so instructed, the entity will sell the equipment and reimburse DOL for its percentage of participation. The recipient may retain up to 10 percent or $500, whichever is less, for selling and handling expenses.
- If instructed to ship the equipment elsewhere, the recipient is reimbursed according to its percentage of participation, plus shipping and interim storage costs
- If instructed to otherwise dispose of the equipment, the recipient is reimbursed for all costs of disposition
- DOL reserves the right to transfer the title to the equipment to DOL or a third party.

FEDERALLY OWNED EQUIPMENT (PROPERTY)

29 CFR 97.32(f) states that, if a grantee or subgrantee uses Federally owned equipment, title will remain vested in the Federal government. Federal agency rules will apply to its use, management, and disposition. Federal equipment is not expected to be made available for WIA program activities, with the exception of some Job Corps contracts.

29 CFR 95.33(a) states that, if a subrecipient is provided Federally owned property, title will remain vested in the Federal government, an annual inventory will be provided the DOL,

and the Grant Officer will decide disposition. Federal property is not likely to be made available for WIA activities.

EXEMPT PROPERTY

Exempt property is defined in 29 CFR 95.2(p), which states "Exempt property means tangible personal property acquired in whole or in part with Federal funds, where DOL has statutory authority to vest title in the recipient without further obligation to the Federal Government." No Federal statute applicable to ETA programs currently provides this authority.

SUPPLIES

Supplies are defined at Section 97.3 as "all tangible personal property other than equipment…" 29 CFR 97.33 provides standards for supplies that apply to both States and other governmental recipients and subrecipients. It states that title to supplies acquired under a grant or subgrant vests in the recipient or subrecipient, respectively. As to disposition, this regulation indicates that the recipient or subrecipient shall compensate the awarding agency for its share of the residual inventory of unused supplies if the inventory exceeds $5,000 or more in aggregate fair market value when the award is terminated or completed and if the supplies are not needed for any other Federally sponsored programs or projects. Aggregate value is the <u>total</u> value of <u>all</u> remaining supplies (e.g., pencils, paper, printer ink, etc.). Supplies are not to be used to provide services to non-Federal outside organizations for a fee that is less than that charged by private companies for equivalent services.

For nongovernmental organizations, supplies are defined at 29 CFR 95.29(11) as "all personal property, excluding equipment, intangible property, and debt instruments…and inventions…" 29 CFR 95.35 provides the standards for supplies. Upon acquisition, title vests in the subrecipient subject to management and disposition conditions. The subrecipient must maintain sufficient records to determine the amount of unused supplies on hand at the termination of the award. The subrecipient must compensate the DOL for its share of the residual inventory if the inventory is $5,000 or more in aggregate value upon termination or completion of the award and if the supplies are not needed for any other Federally sponsored programs or projects.

INTANGIBLE PERSONAL PROPERTY

Copyrights

29 CFR 97.34 states that the Federal awarding agency reserves a royalty-free, nonexclusive, and irrevocable right to reproduce, publish, and otherwise use, and authorize others to use, for Federal government purposes

- The copyright in any work developed under a grant, subgrant, or contract under a grant/subgrant

- Any rights of copyright bought with grant funds by a grantee, subgrantee, or contractor.

Note: The Federal right in this instance does not "pass through" to contractors.

For nongovernmental entities, 29 CFR 95.36 specifies that the subrecipient may copyright work developed or for which ownership was purchased under an award. DOL has a royalty-free, nonexclusive, and irrevocable right to reproduce, publish, and otherwise use (and authorize others to use) the work for Federal purposes.

When such property is developed with the use of ETA grant funds, it is to be made available to any other entity requesting to use the copyrighted materials in a Federally funded program without a licensing fee. Incidental costs of packaging, shipping, handling, etc., may be charged. If the materials will be used for other than Federally funded activities, the developing organization may charge a license fee. The income realized from the sale or licensing of copyrighted materials is not considered as program income unless specified as provided in 29 CFR 97.25(e). This is more fully discussed in Chapter II-7, *Program Income*.

Inventions and Patents

Regulations applicable to nonprofits and small businesses are issued by the Department of Commerce at 37 CFR Part 401. Property requirements for inventions and patents are specifically treated in 29 CFR Part 95 only. The ETA does not anticipate that inventions and patents will be associated with these programs.

Data

Under 29 CFR 95.36(c), the DOL has the right to obtain, reproduce, publish, or otherwise use data first produced under an award and to authorize others to do the same for Federal purposes.

Title, Use, and Disposition

For nongovernmental entities, title to intangible property vests in the subrecipient upon acquisition. Use is restricted to the originally authorized purpose, and the subrecipient must follow the provisions of 29 CFR 95.34(g) for disposition and DOL compensation. There is no similar provision for Governmental grantees.

Note: The Federal right in these instances does not pass through to vendors. Grantees and subgrantees must include such rights in the agreement with vendors, should there be a need.

OTHER PROPERTY MANAGEMENT CONSIDERATIONS

General Guidance Regarding Leasing

The decision to rent or buy personal property must be governed by considerations of economy. Considerations may differ by property type and according to market conditions. Thus, leasing generally is the least economical method of obtaining required equipment. Leasing with an option to purchase is generally preferable to straight leasing.

However, for real property, administrative requirements make leasing the only option, as the construction or purchase of real property is not allowed under the WIA program except in certain limited circumstances. Permissible leases of real property are limited to operating leases, not capital leases. Capital leases are arrangements that result in the ownership of property and are therefore treated by Federal cost principles as purchases. As such, WIA Title I funds may not be used for lease payments under capital leases involving real property. In addition, subrecipients may not, with certain exceptions discussed in the following paragraph, charge fair market rent or lease rates to the WIA program for their own real or personal property used in the program or lease from other activities in which they have a vested interest or which has interest vested to them. [OMB Circular A-122] They may recover these costs only through depreciation. Recovery of costs through use or depreciation allowances is treated in the OMB cost principles circulars. Both OMB Circular A-87 and A-122 contain specific requirements used to establish allowable use allowances and depreciation amounts, based on a variety of factors including useful life of facilities, and any previous depreciation borne by the Federal government. These provisions are found in OMB Circular A-87, Attachment B, Item 15, and in OMB Circular A-122, Attachment B, Item 11. In addition, OMB Circular A-122 addresses capital leases and less-than-arm's length agreements in Attachment B, Item 46, Rental Costs. Similar provisions are found in OMB Circular, A-87, Attachment B, Item 38.

However, less-than-arm's-length leases are allowable up to the amount that would be allowed had title vested in the organization. [OMB Circular A-122, Attachment B, Number 46(c)] The relationship the amount of the lease bears to fair market value will vary. A less-than-arm's-length lease is one in which one party to the lease is able to control or substantially influence the actions of the other. Grantees and subgrantees are urged to carefully review any lease agreement, including One-Stop centers, to ensure that the lease is in compliance with the applicable requirements.

Attachment II-11-1

<table>
<tr><th colspan="4">Types of Property</th></tr>
<tr><th>Real</th><th colspan="3">Personal</th></tr>
<tr><td rowspan="3">Land, including land improvements, structures, and appurtenances thereto, but excluding moveable machinery and equipment (not allowable under the WIA program)</td><th colspan="2">Tangible</th><th>Intangible</th></tr>
<tr><th>Nonexpendable (Equipment)</th><th>Expendable (Supplies)</th><td rowspan="2">Without physical existence: patents, trademarks, or copyrights that are produced or acquired under the grant</td></tr>
<tr><td>Useful life of more than one year and a unit acquisition cost of $5,000 or more</td><td>All else</td></tr>
</table>

Note: Debt instruments and inventions are tangible property and are specifically excluded from the supplies category.

Application of Property Regulations		
Relationship Type	**Kind of Organization**	**Applicable Regulations**
Recipient/Subrecipient	States	**29 CFR Part 97** Equipment 97.32 Supplies 97.33 Copyrights 97.34
Recipient/Subrecipient	Local Governments	**29 CFR Part 97** Same as above
Recipient/Subrecipient	Nonprofits, Hospitals, and Institutions of Higher Learning	**29 CFR Part 95** Equipment 95.34 Supplies 95.35 Copyrights 95.36
Subrecipient/Recipient Direct Contractor	Commercial Entities	**29 CFR Part 95** (same as above) **48 CFR Part 31**

Chapter II-12

Audits and Audit Resolution

INTRODUCTION

This chapter provides guidance and procedural suggestions on ETA audit requirements; the resolution of audit findings, both questioned costs and administrative deficiencies; administrative appeals; and audit-resolution and related requirements characteristic of the WIA. It contains the following sections:

- Audits
- Audit Resolution
- Stand-In Costs and Audit Resolution
- Appeals
- Additional WIA Considerations
- Attachment II-12-1—Audit Review Checklist for Single Audits
- Attachment II-12-2—ETA Audit Resolution Flow Chart
- Attachment II-12-3—Sample Audit Transmittal Letter
- Attachment II-12-4—Sample Initial Determination Transmittal Letter
- Attachment II-12-5—Sample Findings and Determination Format
- Attachment II-12-6—Sample Final Determination Transmittal Letter—Uncorrected Administrative Findings
- Attachment II-12-7—Sample Final Determination Transmittal Letter – Disallowed Costs and Uncorrected Administrative Findings.

AUDITS

Every recipient and subrecipient organization that expends $300,000 or more in Federal financial assistance funds (received from all Federal sources combined) during its fiscal year to operate one or more programs must undergo an audit. Commercial organizations directly funded by DOL are covered by the regulations at 29 CFR 96.32, which specify that the DOL has responsibility for audits of organizations not subject to the audit requirements of the Single Audit Act (SAA) Amendments of 1996. Both WtW [20 CFR 645.230(b)(3)] and WIA [20 CFR 667.200(b)(2)(ii)] require that commercial organizations that are subrecipients under WtW and/or WIA Title I that expend more than the $300,000 threshold of OMB Circular A-133 conduct either an organization-wide or a program-specific audit.

A recipient, whether a State, local area, or other direct ETA grantee, that passes down funds to a subrecipient must ensure that the entity receiving the funds has an audit conducted if the entity meets the $300,000 expenditure threshold.

The Federal Chief Financial Officers' Council has developed a pamphlet and a brochure to provide additional guidance to Federal grant agencies and grantees/subgrantees subject to the requirements of the SAA. The documents provide grant recipients and Federal agencies with information on audit requirements, submittals, and contacts for additional information. The documents are available on the DOL Office of the Inspector General (OIG), Office of Audit Web site at http://www.oig.dol.gov/public/programs/oa/single_audit/main.htm.

Audit Requirements

To establish uniform requirements for audits, Congress enacted the SAA Amendments of 1996 (PL 104-156). This legislation combined previous audit requirements into a single requirement applicable to all recipients of Federal financial assistance, regardless of the type of organization. OMB Circular A-133 was issued to implement the requirements of the SAA, which have been codified for DOL programs at 29 CFR Part 99 and require the following:

- Each entity that expends $300,000 or more of Federal funds under more than one Federal program in any fiscal year must obtain an independent organization-wide financial and compliance audit (single) of such fiscal year.

- Any entity that expends $300,000 or more under only one Federal program that is not subject to a requirement for a financial statement audit may elect to have a program-specific audit.

- The audits are to be submitted within one month after receipt of the auditor's report or no later than nine months after the end of the auditee's fiscal year. Audit reports are submitted to the Federal clearinghouse in accordance with 29 CFR 99.320. The submission requirements are discussed in detail later in this chapter.

- Recipients of Federal financial assistance funds must also ensure that all subrecipients, including local area grantees, comply with subrecipient audit requirements, such as having a timely audit in accordance with the requirements of the SAA.

- The DOL is responsible for the audit of commercial organizations that function as direct recipients of ETA grants at the discretion of the Secretary. The Secretary also has the discretion to conduct audits of commercial entities that are subrecipients. [29 CFR 96.32] In addition, OMB Circular A-133, Section 210(e), states that, when a commercial organization is a subgrantee of State, local government, or nonprofit agency funded by Federal funds, then the audit responsibilities must be specified in the agreement and may include "post-award audits." Also, under WIA and WtW, certain subrecipient commercial organizations must follow the requirements specified at 20 CFR 667.200(b)(2)(ii) and 20 CFR 645.230(b)(3), respectively.

There are no Federal audit requirements for the following:

- Any entity that expends less than $300,000 in Federal awards in a fiscal year, and

- Any entity that receives Federal funds exclusively as a vendor, regardless of funding level.

Chapters 3, 4, and 5 of the August 1999 *Government Auditing Standards*, commonly referred to as the General Accounting Office (GAO) "Yellow Book" and issued by the Comptroller General of the United States, provide general standards as well as the standards for field work and reporting for financial audits. The same chapters may also be used as guidance for the financial and compliance coverage included in an organization-wide audit. Chapter 3 indicates that auditors are to choose and conduct auditing tests that, in their professional judgment, are appropriate to achieve the audit objectives and are designed to obtain sufficient, competent, and relevant evidence of a reasonable basis for their opinions, judgments, and conclusions. Chapter 4 indicates that auditors should design the audit to provide reasonable assurance of detecting misstatements that have a direct and material effect on the financial statements. To accomplish this, the auditors should obtain a sufficient understanding of internal control to determine the nature, timing, and extent of the audit steps, tests, and procedures needed to assess the risk of noncompliance with laws and regulations. Chapter 5 indicates that auditors should include a written report on the scope of their testing of compliance with laws and regulations and of internal control over financial reporting. They are also to indicate whether the tests they performed provided sufficient evidence to support an opinion on compliance or internal control.

The GAO has also revised the Yellow Book to issue new standards for auditor independence. The most significant change relates to the rules associated with non-audit or consulting services. Under the new standard, auditors should not perform management functions or make management decisions, and auditors should not audit their own work or provide non-audit services for clients where the amounts or services could be considered significant or material to the subject matter of the audit. Additional safeguards also must be met for nonaudit services to be provided. The new standard becomes effective for all audits of periods beginning on or after October 1, 2002. The Yellow Book and the new standard may also be accessed on the GAO Web site at http://www.gao.gov/govaud.

Management and the Audit Environment

Auditing firms perform various types of audits. The audited organization must ensure that the audit it obtains meets the standards required for the organization and should specify to the auditing firm the type of audit required. For ETA-funded entities subject to audit requirements, the only type of audit report that is acceptable is the single audit unless the entity receives funds under only one Federal program. In such instances, the entity may elect to have a program-specific audit conducted in accordance with 29 CFR 99.235.

Single Audit. An audit that meets SAA standards is to include:

- The entity's financial statements
- The schedule of expenditures of Federal awards
- The schedule of prior audit findings

- The auditor's opinion (or disclaimer of opinion) as to whether the financial statements are presented fairly in all material respects
- The auditor's opinion (or disclaimer) as to whether the schedule of expenditures of Federal awards is presented fairly
- The auditor's report on the entity's internal control related to the financial statements and major programs
- The auditor's report on the entity's compliance with laws, regulations, and the provisions of contracts or grant agreements
- A schedule of findings and questioned costs.

The auditee must also prepare a corrective action plan and submit the plan with the audit reporting package.

Attachment II-12-1 to this chapter is an audit review checklist that can be used as a desk review instrument to determine the adequacy of the audit. When an entity elects to have a program-specific audit, it should check on the availability of a program-specific audit guide. When available, auditees and their independent auditors should obtain a copy of the guide and utilize it to ensure that the report is consistent with basic requirements. Whether a single audit or a program-specific audit is conducted, grantees and their auditors may wish to review the OMB compliance supplements applicable to their particular ETA-funded program. These supplements are available for most major Federal programs through OMB. The Web site for OMB compliance supplements is listed in Appendix C.

Vendors

It would be inaccurate to say that a vendor will not be audited simply because the entity provides ETA or an ETA-funded grantee with goods or services under, for example, a procurement contract. An entity may be subject to the SAA requirements as a result of its non-vendor status as a recipient or subrecipient of another Federal award. An SAA audit is an audit of expenditures under all the Federal awards received by an entity from all sources. Specifically, the SAA audit requirement for a particular entity is a function of the total of all expenditures under Federal awards received. If an entity is subject to an SAA audit, the ETA funds it receives are subject to audit, whether they are received through a grant or a contract, and regardless of the grant/contract amount or vendor relationship. The scope of an SAA audit is not limited simply to the expenditure of funds. The ETA-funded procurement contract may be selected as a transaction for testing in an audit of a government entity, an educational institution, or a nonprofit organization. In addition to testing to ensure that payment was made for deliverables provided, the transaction may also be selected for internal control and compliance testing. Thus, a finding relating to ETA could appear in an audit report even though the audit was not required by ETA based on the type of agreement or the amount of ETA-funded dollars received.

If a vendor is subject to an audit under the SAA, it may be advantageous and prudent from a management perspective to receive a copy of any audit report for that entity that covers ETA funds and internal controls of the organization, to ensure there are no findings related to ETA-funded projects. It would allow the agency providing funds more time to take corrective action and could mitigate the seriousness of a finding and reduce the amount of funds involved.

Auditee (Grantee/Subgrantee) Responsibilities

Grantees and subgrantees subject to the audit requirements of 29 CFR 99.200 are responsible for a number of activities related to the audit process. Under the provisions of 29 CFR 99.300, they must:

- Identify, in their books of account, all Federal awards received and expended and the Federal program(s) under which they were received.
- Maintain internal control over Federal programs to assure compliance with applicable laws and regulations (see also 29 CFR 97.20 and 95.21).
- Comply with laws and regulations related to each Federal program.
- Prepare financial statements. The requirements for financial statements are found at 29 CFR 99.310.
- Ensure that required audits are properly performed and reports are submitted on time with all the required documents.
- Follow up and take appropriate corrective action for audit findings. This includes preparation of a schedule of prior audit findings and a corrective action plan.

Grantees and subgrantees are responsible for obtaining the services of independent auditors in accordance with applicable procurement procedures. Audit firms that prepared indirect cost proposals or cost allocation plans (CAPs) are prohibited by OMB from performing the organization-wide audit when the indirect costs recovered by the auditee during the prior year exceeded $1,000,000. It is also suggested that grant recipients or subrecipients avoid using an audit firm already under contract to assist the organization in developing CAPs or indirect cost rate proposals, as this may give the appearance of a conflict of interest.

Each grantor agency is responsible for ensuring that the requirements of 29 CFR Part 99 are implemented by each of their subrecipients that expend $300,000 or more in Federal award funds and that the audits of subrecipients are completed and findings resolved within six months of receipt of the audit report.

As part of its audit responsibilities, each auditee is responsible for follow-up and corrective action on all audit findings. 29 CFR 99.315(b) requires that each auditee prepare a summary schedule of prior audit findings that includes:

- All prior audit findings with a statement that they were either fully corrected or giving the current status of any corrective action
- An explanation, if the corrective action taken varies significantly from the planned action stated in the prior corrective action plan or any resolution document
- Reasons that the auditee believes prior audit findings are no longer valid or do not warrant further action.

In addition, the auditee must prepare a corrective action plan for each audit finding in the current audit. This corrective action plan must include the name of the person responsible for corrective action, the planned action, and an anticipated completion date. If the auditee disagrees with the audit finding, an explanation and specific reasons must be included in the plan. The

summary schedule and corrective action plan must be included with the audit report as part of the total audit package submitted to the Federal clearinghouse.

Audit reports must be submitted within nine months of the end of the organization's audit period or 30 days after receipt of the auditor's report. The requirements for submission of audit reports are found at 29 CFR 99.320, which requires that each auditee submit a data collection form and reporting package consisting of the financial statements and schedule of Federal expenditures, the auditor's required reports, the summary schedule of prior years' findings, and the corrective action plan, as specified at 29 CFR 99.320(b). The entire reporting package is submitted to the Federal clearinghouse for acceptance and distribution to all affected Federal agencies. The auditee is responsible for providing an adequate number of copies of the reporting package. If the auditee is also a subrecipient of Federal funds, it must submit a copy of the reporting package to each entity from which it received an award of Federal funds, if the audit includes findings related to the pass-through funds received.

AUDIT RESOLUTION

Ensuring Integrity of Resolution Documents

Audit reports are recommendations to management and may not include all the information on which a resolution action will be based. Occasionally, the proper, best, and/or most appropriate citation related to the issue is not included in the audit report. At other times, no citations are provided. The resolution official must ensure that all appropriate bases for a determination on the audit findings are included in the resolution documents. In addition, at times information in an audit report will raise other issues (including other potential questioned cost issues) that should be pursued by the resolution official. The audit as a whole and the ramifications of each finding must be thoroughly understood so that each audit can be resolved appropriately on an individual basis.

The administrative decision of an awarding agency to sustain or to reject the findings contained in an audit report of its subrecipient is termed an audit resolution. The document issued to the subrecipient/auditee formally describing such findings and detailing such decision is often referred to as the findings and determinations (FD). Whether such decision involves disallowance of costs questioned in the audit report, or non-monetary administrative findings, the awarding agency must identify an appropriate course of action to remedy the deficiency or variance. The remedy it selects to include in the FD may be thought of as a sanction. Thus, issuance of an FD may be thought of as a decision with sanctions, and it must be accompanied by a notification of a right to appeal.

It is imperative to recognize the distinction between the resolution decision and the remedy or sanction. As explained later in this chapter, acceptance of stand-in costs is a resolution decision, not a remedy or sanction.

ETA's Responsibility for Audit Resolution

The ETA must resolve all findings presented in recipient-level audit reports as well as the DOL OIG audit reports. OMB Circulars A-50 and A-133 require Federal agencies to establish systems to ensure proper resolution and corrective action on audit recommendations. The ETA audit resolution process is described in 29 CFR Part 96, Subpart E.

Additional audit resolution provisions applicable to WIA programs are described in 20 CFR 667.510. These provisions mirror the Initial and Final Determination process described in this chapter and also cover the ETA process for resolving monitoring and other oversight findings.
20 CFR, Part 667, Subpart E, also addresses State responsibilities, sanctions, and appeals processes, which are addressed later in this chapter as well as in Chapter II-13, *Disposition of Disallowed Costs*.

Resolution Responsibility Rests with the Awarding Agency

Under 29 CFR 99.400, there is a requirement that a management decision be issued within six months after receipt of an audit report. The responsibility for resolving all findings related to ETA-funded programs and funds rests with the awarding agency. ETA is responsible for audits of its direct recipients. Each awarding agency below the Federal level that awards funds to lower-tier subrecipients is responsible for the resolution of findings in the audits of their subrecipients. Audit findings, including administrative findings, must be resolved within six months after receipt of the audit report. This does not necessarily mean that corrective action will have been fully completed or that disallowed costs will have been paid within the same six-month period.

Federal-Level Audit Resolution

Both Federal and non-Federal audits of entities that receive ETA funding directly from the DOL will be resolved by the ETA Grant Officer. These entities may be State or local government agencies, nonprofit institutions, or commercial organizations. The resolution process begins when ETA receives the audit report from the OIG.

Under 29 CFR 99.320, auditees are required to submit copies of the audit report package and (the data collection form) to the Federal audit clearinghouse. The clearinghouse is responsible for providing the package to the DOL Inspector General for Audit, who will issue the report to ETA for resolution after it has been found acceptable.

The DOL ETA resolution process is described in 29 CFR Part 96 and includes:

- Pre-resolution activities (report submission and quality control)
- Initial Determination
- Informal resolution period
- Final Determination
- Right to appeal within 21 days.

The resolution process to be followed by the Grant Officer for direct WIA-funded recipients is found at 20 CFR 667.510. This same process is used when the Grant Officer is dissatisfied with the State's resolution of a subrecipient level audit. Additional WIA requirements are also addressed further in this chapter. A schematic depicting the flow of Federal-level audit resolution is provided in Attachment II-12-2. Each of the steps is also described in the following section on non-Federal audit resolution.

When the audit of a direct recipient includes coverage of and findings on subrecipient organizations, such as a State Department of Education, the ETA will ordinarily resolve such findings as part of its resolution activities with the direct recipient.

Non-Federal Audit Resolution

Each entity that awards Federal funds to a subrecipient is responsible for issuing a management decision on all audit findings that relate to its award within six months after the receipt of the subrecipient's audit report and for ensuring that the subrecipient takes appropriate and timely corrective action. There is no specified format for the management decision, but it must state clearly whether the audit finding(s) is sustained, the reasons for the decision, and the expected auditee action to repay disallowed costs, make financial adjustments, or take other corrective action. Thus, the management decision process constitutes audit resolution.

Non-Federal audit resolution responsibility rests with each entity that directly awards ETA funds to a subrecipient. The State must resolve all audits of LWIAs and any other direct subrecipients, such as project operators under the Governor's reserve or set-aside funds. LWIAs are responsible for resolving audits of their service providers/direct subrecipients. Lower-tier service providers that award funds to subrecipients are responsible for resolving audits of those entities. Other direct ETA grantees are responsible for resolution of audits for their direct subrecipients, and the lower-tier subrecipients, for resolving audits of service providers as the service delivery arrangements in each grant warrant.

As no specific process is mandated, the audit resolution process used for individual grantees may vary. However, the resolution process must accomplish the following:

- Determine the need for and ensure the implementation of corrective action for all findings that impact the program
- Allow or disallow all questioned costs and provide the basis for each such determination
- Determine whether allowable stand-in costs were reported and included within the audit scope, meet the fiscal year requirements, and are available to substitute for disallowed costs
- Establish a debt (where appropriate) and indicate the method of repayment planned or required
- Provide the auditee/subrecipient with its appeal rights.

The suggested audit resolution system described in the following paragraphs is patterned after the Initial and Final Determination process used at the Federal level. This process may be used at the State, LWIA, other direct ETA grantee, or all other subrecipient levels.

Pre-Resolution. Before starting resolution, the awarding agency (resolution agency) should verify the acceptability of the audit report. Although the auditee must ensure that the audit it obtains meets the standards required for the organization, the awarding agency may wish to do its own check. Attachment II-12-1 to this chapter is an audit review checklist that may be used as a desk review instrument to determine the adequacy of the audit.

Controls Related to Audit Resolution. Upon receipt of the final audit report, specific controls should be established to ensure that resolution takes place within required time frames. It is suggested that an audit control log be maintained to include the following:

- Date of audit
- Period covered by audit
- Date received
- Auditor
- Questioned costs (number of findings and amounts)
- Administrative findings (number of findings)
- Assigned audit number
- Date(s) Initial and Final Determination(s) scheduled, issued, and appealed.

Suggested Procedure for Resolving Audit Report Findings. This three-part process is the same process used by the DOL to resolve audits of direct recipients of ETA funds. The specific guidelines are found at 29 CFR 96.53 and, for WIA recipients, at 20 CFR 667.510. They include the Initial Determination, an informal resolution period, and the Final Determination. All these must be accomplished within six months of receipt of the final audit report. It is recommended that the awarding agency give the auditee/subrecipient a copy of the audit report and allow a reasonable amount of time for comment (see Attachment II-12-3 for a sample audit transmittal letter). Since the auditee/subrecipient is responsible for procuring the audit, it should already have a copy of the report. However, it may still be helpful to send a letter requesting comments on the audit findings before issuing an Initial Determination.

Initial Determination

The Initial Determination is a preliminary decision on whether to allow or disallow questioned costs and resolve any non-monetary (administrative) findings. It offers the auditee/subrecipient an opportunity for informal resolution, not a formal hearing.

The Initial Determination, which addresses questioned costs and administrative findings, should be sent to the auditee/subrecipient within a reasonable time after the end of the subrecipient's comment period. The Initial Determination should be sent U.S. Certified Mail, return receipt requested.

Disallowed Costs Findings. The guidance below can be used for evaluating the allowability of questioned costs. The information can be used in both the Initial and Final Determinations.

- In most instances, a cost will be disallowed if the basis is a clear and unequivocal violation of law and regulations. Costs can also be disallowed based on a violation of Federal grant terms and conditions that include the regulations and OMB circulars governing administrative standards and cost principles.

- Costs incurred must be supported by required source documentation such as time and attendance records, bills and invoices, and canceled checks.

- Some flexibility is available if the questioned cost is based on a violation of a subrecipient, subgrant, or contract requirement. Subgrants and contracts can be more restrictive in the range of activities and types of cost permitted under that subgrant or contract than Federal or, if applicable, State rules or regulations. Therefore, it is possible that a cost could be unallowable under the subgrant/contract provisions but allowable under State provisions and/or the ETA-funded Federal regulations. The entity resolving the audit may or may not disallow the costs. However, an entity cannot require less than full compliance with the ETA-funded program legislation and its regulations. It is the responsibility of the agency resolving the audit to determine if the contract or grant requirements that are more restrictive than the Federal (or State) requirements should be waived.

Administrative (Non-Monetary) Findings. Administrative non-monetary findings should also be addressed in the same Initial and Final Determinations. The proper resolution of an administrative finding is corrective action of the deficiency. Although not required, entities may wish to prioritize administrative findings to focus immediate attention on those considered serious, especially if the finding could result in cost disallowances, such as an inadequate eligibility determination process.

The organization's audit resolution control log, discussed previously, should document the findings selected for urgent corrective action. In addition, it is strongly recommended that the resolution of administrative findings be coordinated with the agency monitoring the program to ensure that on-site follow-up verifies and documents corrective action. The guidance provided below can be used for the Initial and Final Determinations. For each administrative finding, note

- The deficiency and the corrective action required of the subrecipient. If the administrative finding was corrected during the comment period or as a result of informal resolution, the manner in which the matter was resolved should be indicated. If further corrective action is required, the specific action required should be specified in the Initial and Final Determinations, as appropriate.
- The dates for completion of the corrective action
- The availability of technical assistance, if requested. (The resolution agency should maintain documentation in its file for the subrecipient audit to indicate when technical

assistance was requested and provided. Progress reports on the implementation of corrective action should be provided by the subrecipient and maintained in the file.)

- Sanctions and remedial actions that may be taken against the auditee/subrecipient if the deficiency is not corrected. The completeness and specificity of this part of the Initial Determination is important in serious cases when it is likely that the awarding agency will take strong measures, including termination, reorganization, reallocation, or partial funding if the deficiency is not corrected.

Informal Resolution Period

During this period, the auditee/subrecipient has an opportunity to present new evidence, documentation, and an explanation to modify the decision by the awarding agency. The auditee/subrecipient has an opportunity to agree to corrective action before the awarding agency initiates sanctions or remedial actions. Occasionally, the auditee/subrecipient will admit to the non-allowability of a questioned cost and make repayment. In such cases, the amount is disallowed in the Final Determination but is not subject to debt collection.

The terms of repayment may be negotiated and may also be included in the Final Determination.

Final Determination

The Final Determination should be sent to the auditee/subrecipient within a reasonable time (not more than six months) after the awarding agency receives the final audit report. The Final Determination should be sent by U.S. Certified Mail, return receipt requested.

The Final Determination should:

- Reference the Initial Determination.
- State the awarding agency's final decision to disallow any costs, listing each disallowed cost specifically and noting the reasons for each disallowance. (Lengthy explanations can be incorporated by reference to item and page number of the audit report; however, a Final Determination that can stand on its own is preferable.)
- Identify the questioned costs in the audit report that have been allowed by the awarding agency and the basis for the allowance of the costs.
- Demand repayment of the disallowed costs.
- Describe debt collection actions and other sanctions that the awarding agency may impose if repayment is not made.
- Inform the auditee/subrecipient of its right to appeal.
- Restate the status of each administrative finding.
- Identify areas of disagreement between the parties (29 CFR 96.53(c)(2)).

When a cost is disallowed in the Final Determination, a debt is established. However, if the auditee/subrecipient appeals, no further collection action can be taken, pending the outcome of the appeal.

The agency responsible for resolution is required to maintain an audit resolution file documenting the points listed above and containing copies of all formal correspondence relating to the resolution.

Note: The Final Determination letter should advise the auditee/subrecipient that the determination is based on information that was currently available. If new information becomes available, the Final Determination may be reopened at the awarding agency's option. However, this is not intended to extend the negotiation process indefinitely. Ensuring due process without incurring needless delays is a concern every administrative complaint system must recognize and address.

A sample Initial Determination transmittal letter is provided as Attachment II-12-4 to this chapter. Attachment II-12-5 is a sample format that may be used for both Initial and Final Determinations. Sample Final Determination transmittal letters are provided as Attachments II-12-6 and II-12-7.

Post Final Determination Follow-Up on Uncorrected Findings. Corrective action on audit findings should be initiated within the six-month audit resolution period and proceed as quickly as possible. In some cases, corrective action on administrative findings may not be completed within the six-month time frame. To ensure that these findings are fully corrected, proper controls should be implemented that will track resolution during the post-Final Determination period. Follow-up should include requirements that require auditees to report, at least quarterly, the status of uncorrected audit findings and corrective action. Follow-up tracking systems should include contact information that identifies the person (and telephone number) responsible for ensuring correction of the reported deficiencies and variances, and should require at least quarterly updates of progress toward achieving correction.

The auditee/subrecipient efforts to correct a deficiency should be monitored on a continuing basis by appropriate awarding agency staff. Depending on the severity of the deficiency and the time of year, it may only be necessary to review the status of the corrective action during routine fiscal monitoring. Uncorrected administrative findings will be reported again during the next single audit period.

If the auditee/subrecipient fails to correct the deficiency in the allotted time, the sanctions and remedies noted in the Final Determination may be exercised. This occurs after all appeal opportunities have been exhausted.

Other Recommended Uses of the Initial and Final Determination Process

All ETA-funded administrative entities are encouraged to develop a process or procedure similar to the Initial and Final Determination processes described previously in this chapter for resolving monetary and non-monetary findings resulting from monitoring, incident reports, compliance reviews, and investigations, in addition to audits.

STAND-IN COSTS AND AUDIT RESOLUTION

The Comptroller General of the United States issued a decision (68 Comp. Gen. 247, dated February 9, 1989) which indicates that the DOL should accept stand-in costs as a substitute for disallowed costs in audit resolution. The application of stand-in costs is considered by ETA during **the audit resolution stage**. If an auditee agrees that an auditor's questioned cost is unallowable or decides not to contest the finding and wishes to propose the use of stand-in costs as substitutes for otherwise unallowable costs, the proposal shall be included with the audit resolution report or other document by which the auditee provides its comments to the resolution agency. If the auditee is uncertain about the allowability of the auditor's questioned cost before receipt of the Initial Determination, the proposal to use stand-in costs may be presented during the informal resolution period.

Criteria

Stand-in costs are non-Federal costs that may be substituted for disallowed grant costs when certain conditions are met. Stand-in costs must meet the following criteria:

- To be considered, proposed stand-in costs shall have been actually incurred allowable grant costs that have not been charged to the ETA-funded program, included within the scope of the audit, and accounted for in the auditee's financial system required by 29 CFR Part 97 or 95 as appropriate. Cash match (i.e., expenditures of the organization used as match) in excess of the required match may also be considered for use as stand-in costs.

- To be accepted, stand-in costs must come from the same year as the costs that they are proposed to replace, and they must not cause a violation of the administrative or other cost limitations. Each of the separate criteria for consideration of proposed stand-in costs is discussed below:

  <u>Criterion:</u> Must be allowable costs that were actually incurred for the benefit of the ETA-funded program and paid by a non-ETA fund source. Thus, for example, the dollar value of in-kind donations cannot be recognized as stand-in costs. Also, inasmuch as costs must be net-of-credits under the governing cost principles, the dollar value of discounts cannot be considered as an allowable grant cost.

  <u>Criterion:</u> Must have been included within the scope of the organization's single audit (not necessarily tested but potentially subject to testing). This means that the costs must be recorded and included in the financial statements presented by the agency to the auditor for audit. Failure to include unbilled costs disqualifies the costs for stand-in consideration.

  <u>Criterion:</u> Must have been accounted for in the auditee's financial system. This means that the unbilled expense must be recorded and documented in the administrative entity's books of accounts. It cannot be presented as a separate consideration outside the entity's accounting system.

<u>Criterion:</u> Must be adequately documented in the same manner as all other ETA-funded program costs. This means that the unbilled expense must be treated in a manner consistent with cost principles affecting other expenses, including but not limited to the cost allocation methodology, cost classification methodology, and supporting documentation requirements.

Caution: Stand-in costs cannot be created using circumstances or conditions that appear to be legitimate liabilities if no actual costs are incurred by any entity.

<u>Example:</u> The local school department provides free space for an ETA-funded program in a building that has been fully depreciated. The only facility-related costs the school department actually pays are for general maintenance. A liability created by the school department related to rental costs that were never paid is not a legitimate stand-in cost. The only legitimate stand-in cost available in this example, assuming that all recording and reporting requirements have been satisfied, is an allocable share of the general maintenance cost based on square footage occupied, or another allocation method that would be more equitable.

Certain costs, including in-kind contributions, are not considered unpaid ETA program liabilities, but rather as in-kind match; therefore, they cannot be used as stand-in costs because they cannot be charged to the Federal grant. Examples of other costs that are not stand-in costs include:

- Uncompensated overtime
- Unbilled premises costs associated with fully depreciated publicly owned buildings
- Allocated costs derived from an improper allocation methodology
- Discounts, refunds, rebates
- Any State share of the cost of State or community college tuition.

Two other caveats should be mentioned. First, as suggested above, allowable stand-in costs may be used to trade or substitute for disallowed costs under certain conditions. The source of stand-in, however, is intended to be limited to the same entity that incurred the disallowed costs. Thus, aggregation or pooling of stand-in within a State formula grant as a kind of insurance policy available to reduce or eliminate bad costs wherever they might be identified is not an arrangement that will be recognized by the DOL. Second, if the cause of the disallowed costs was fraud, then the DOL will not ordinarily consider proposals of stand-in to substitute for such costs.

APPEALS

The appeals process for DOL programs is described at 29 CFR Part 96, Subpart F. This subpart applies only to those recipients, subrecipients, vendors, and contractors against whom the DOL has directly levied a sanction. It includes provisions for appeals by both contractors and grantees. The provision at 29 CFR 96.62 indicates that contractors (e.g., Job Corps center operator contractors) may appeal a DOL Contracting Officer's Final Determination to the DOL Board of Contract Appeals. The requirements for appeals by grantees are found in

29 CFR 96.63. Of the two options provided, ETA has elected to use the process for appeal to the DOL Office of Administrative Law Judges (ALJ). The provision for this option, 29 CFR 96.63(b), indicates that affected parties may appeal the decision (and the sanctions imposed) within 21 days of receipt of the Grant Officer's Final Determination by requesting a hearing before the ALJ. The requirements for appeal indicate that the request for hearing must be accompanied by a copy of the Final Determination and must include a statement of the issues that identifies the specific portions of the Final Determination being appealed and the basis for the appeal.

The ALJ is to issue a written decision no later than 90 days after the closing of the record. Should any party be dissatisfied with the decision, it may file an exception to the decision to the Secretary of Labor. The appeal must be filed within 21 days of receipt of the ALJ decision and specify the procedure or finding of fact, law, or policy being appealed. Any exception not specifically appealed is considered to be waived. The decision of the ALJ will become the final agency action unless the Secretary agrees, within 30 days of the filing, to review the case. The secretary has delegated this authority to the Administrative Review Board (ARB). The Secretary (or the ARB) must decide the case within 180 days. However, if no decision is issued, the ruling of the ALJ is considered to be the final agency action.

In accordance with the provisions at 29 CFR 96.61(b), other subrecipients and subcontractors have only the rights of appeal as are contained in their subaward agreements with their respective awarding agencies. There is no appeal right to the DOL.

WIA Title I

Additional appeals regulations for WIA Title I grantees are found at 20 CFR Part 667, Subpart H. The regulations state that appeals by entities against which the ETA Grant Officer has directly imposed a sanction or imposed a corrective action are to be submitted within 21 days of receipt of the Final Determination. Failure to request a hearing within 21 days constitutes waiver of a right to a hearing. Under these provisions, the ALJ is to issue a written decision no later than 90 days after the closing of the record. Should the appealing party be dissatisfied with the decision, it may appeal the decision to the Administrative Review Board (ARB). The appeal must be filed within 20 days of the ALJ decision and specify the procedure, fact, law, or policy being appealed. Any exception not specifically appealed is considered to be waived. The decision of the ALJ will become the final agency action unless the ARB notifies each party within 30 days that the appeal has been accepted. The ARB is to issue a decision within 120 days. If no decision is issued within that time, the ruling of the ALJ is the final agency action.

Subpart H also provides that parties to a complaint (i.e., ETA and the entity against which the Final Determination was issued) may choose to waive their rights to an ALJ hearing and may opt to transfer the settlement of their dispute to an individual acceptable to all parties. Under this alternative disputes resolution process, the individual selected by the parties will conduct an informal review of the facts and render a written decision within 60 days. A decision issued under this process will be treated as a final ALJ decision.

ADDITIONAL WIA CONSIDERATIONS

In addition to the audit and audit resolution requirements contained in 29 CFR Parts 96 and 99, the WIA regulations contain a number of special conditions related to audit and audit resolution that are applicable only to WIA Title I programs.

- For formula funded grantees (i.e., States), the Governor is responsible for resolving the audit findings related to LWIAs and other subrecipients. The State must utilize the same audit, audit resolution, debt collection, and appeals procedures for WIA as are used for other Federal grant programs. [20 CFR 667.500(a)]

- The ETA uses the DOL audit resolution process, found in 29 CFR Part 96, and the Grant Officer resolution process found at 20 CFR 667.510 to resolve the audit findings of State formula grantees and other direct recipients of WIA funds, including the INA program and NFJP. In addition, the Grant Officer has the right to resolve subrecipient audit findings if dissatisfied with the State's resolution action.

- The Initial Determination must provide for an informal resolution period of at least 60 days and, if the audit is resolved informally, the Grant Officer must issue a Final Determination that notifies the parties of the resolution. The Grant Officer may then close the file. [20 CFR 667.510(c)]

- The Final Determination is ordinarily issued within 180 days from the date the audit is received by ETA from the DOL OIG. For audits of subrecipients conducted by the OIG, the Final Determination will ordinarily be issued within 360 days.

- The Grant Officer has the right to issue an Initial and/or Final Determination directly to a subrecipient consistent with the requirements of Section 184(d)(3) of the WIA related to waivers of liability.

- Under WIA Section 184(d)(3), the Grant Officer may waive the liability for a debt under the circumstances listed in Section 184(d)(2) and 20 CFR 667.720(c)(1-5). This section specifies that a waiver request will be considered only if:

    - The misexpenditures occurred at the subrecipient level
    - The misexpenditures were not the result of gross negligence, a willful disregard of the Act and/or regulations, failure to follow accepted standards of administration, or did not constitute fraud
    - If the misexpenditures were due to fraud, they must have been perpetrated against the grantee or the subgrantee, and the grantee/subgrantee must have forcefully pursued investigation, prosecution, and debt collection against the perpetrator; and after aggressive debt collection, it is documented that further attempts at debt collection would be inappropriate or futile
    - The debt associated with the misexpenditures must have been established through the established audit resolution process and the grantee's appeals process exhausted

- The Grant Officer determines that further collection actions would be inappropriate or futile
- The grantee formally requests the waiver and provides documentation to support its claim of compliance with these requirements.

- It is ETA practice to require that waiver requests be made during the informal resolution period when related to an ETA audit resolution action. If the waiver request relates to a debt established during the grantee's resolution process, then a resolution report must accompany the request. Waivers of liability are also addressed in Chapter II-13, *Disposition of Disallowed Costs*.

- A direct grantee may also request approval from the Grant Officer for contemplated debt collection actions it plans to either begin or forego. The request must include a description and an assessment of all actions taken by a subrecipient to collect the misspent funds. The Grant Officer may then determine that the grantee may forego collection. The criteria used in making the determination are listed in 20 CFR 667.730(b) and are substantially the same as described in the discussion of waiver of liability above. This provision is addressed more fully in Chapter II-13, *Disposition of Disallowed Costs*.

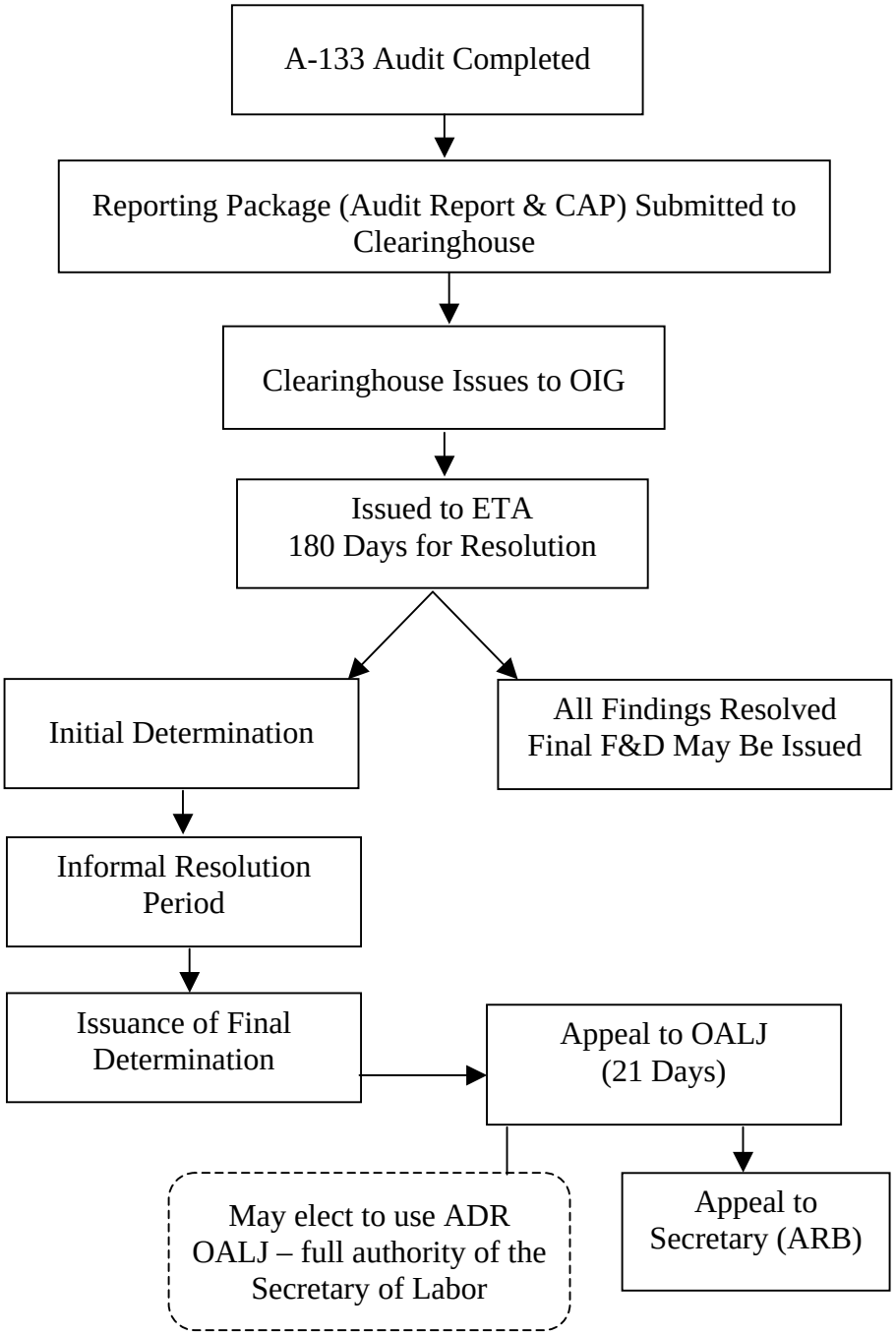
Attachment II-12-1

Audit Review Checklist for Single Audits (Financial and Compliance) Under OMB Circular A-133

Audit Report	Yes	No
1. Does the audit report include the following:		
A. The auditee's financial statements?	___	___
B. Report (opinion) on the financial statements?	___	___
C. Schedule of Federal awards by Catalog of Federal Domestic Assistance (CFDA) number?	___	___
D. Report (opinion) on the schedule of Federal awards?	___	___
E. Report on internal controls related to the financial statements and major programs?	___	___
F. Report on compliance with laws, regulations, etc.?	___	___
G. Schedule of findings and questioned costs? (If none, schedule should say none.)	___	___
H. Schedule of prior audit findings?	___	___
I. The auditee's corrective action plan?	___	___
2. Do you understand and agree with the type of financial opinion given (qualified, unqualified, adverse, disclaimer)?	___	___
3. If there are any scope limitations in the opinion, are they correct?	___	___
4. Are the opinions dated as of the last day of fieldwork?	___	___
5. Do the opinions refer to the government audit standards (Yellow Book) and OMB Circular A-133?	___	___
6. If the audit refers to "another comprehensive basis of accounting," is this correct?	___	___
7. Are all agency funds (grants, corporate cash, program income, etc.) included in the financial statements?	___	___
8. If grants overlap the fiscal year, is there information by grant or supplemental schedule (if required by the audit contract)?	___	___

Audit Report	Yes	No
9. If there are significant deficits in any fund balance, are they clearly explained?	___	___
10. Has the auditor provided the agency with copies of any recommended adjustments to the books?	___	___
11. Do the financial statements agree with the agency's books, after the posting of the recommended adjustments?	___	___
12. If there are supplementary schedules, is there an opinion covering the supplementary information?	___	___
13. Are the accounting policies clearly explained in the notes to the financial statements?	___	___
14. Are there notes explaining any financial items that could raise questions to an outside reader?	___	___
15. Does the audit discuss the status of prior year audit finding(s)?	___	___
16. Do the findings clearly indicate the criteria for each finding?	___	___
17. Are the agency's comments included with each finding?	___	___
18. Are the findings clearly written in such a manner that they can be responded to?	___	___
19. Does the audit clearly indicate how any questioned costs have been calculated?	___	___
Other		
20. Was there an exit conference?	___	___
21. Were all items in the audit discussed at the exit conference?	___	___
22. Was the audit completed and submitted on time?	___	___
23. Do the billings for the audit agree with the amount in the audit contract?	___	___
24. If there was an increase to the audit fee, was it approved before the work was performed?	___	___
25. Was the audit staff competent and knowledgeable about government audit standards, grant programs, cost principles, and administrative requirements?	___	___

ETA Audit Resolution Flow Chart



Attachment II-12-3

Sample
Audit Transmittal Letter (for Comment Purposes)

Date:

Address:

Re: (**Auditee**)CAudit Report Number
Dated:
Period:

Dear **(Name of Subgrantee Administrator**):

(Name of Grantee) has examined the results of the Single Audit of the (**Auditee**), issued by **(Name of Firm)**, dated, _____, for the year ended June 30, 20XX.

The audit report on pages _____ cites questioned costs of $_____ and on pages _____ cites _____ administrative findings. At this time, **(Name of Grantee)** is extending to **(Name of Subgrantee)** 30 days from receipt of this letter to submit comments and/or documentation relative to the above questioned costs and administrative findings.

At the conclusion of the 30-day response period, an Initial Findings and Determination will be issued by this office.

Should you have any questions regarding this report, please contact _____ at _____.

Sincerely,

Grant Administrator

Attachment II-12-4

Sample
Initial Determination Transmittal Letter

Date:

Address:

Dear Mr./Ms.:

This is in reference to the audit of the Employment and Training Administration program operated by the (**Auditee**). The Audit report contains (**select**):

- Questioned costs and administrative findings
- Administrative findings but no questioned costs
- Questioned costs in the amount of $_____.

Enclosed is my Initial Determination on the audit findings summarized as follows:

Audit Report Number:
Audit Period:
Amount Questioned:
Amount Allowed:
Amount Disallowed:
Number of Administrative Findings:
Number of Uncorrected Administrative Findings:

The enclosed Initial Determination explains the reasons for the determinations to (**select as appropriate**):

- Allow or disallow costs
- Require administrative corrective action
- Allow or disallow costs and require administrative corrective actions.

In accordance with (**Audit Policy**) this notification provides the (**Auditee**) with the opportunity to resolve the audit findings informally with the (**Grantee Name**) within _____ days from the date of this letter and Initial Determination. A Final Determination will be issued upon expiration of the _____ day informal resolution period.

If you wish to begin informal resolution discussions, please contact _____ of my staff at (**Telephone Number**) immediately upon receipt of this letter.

Sincerely,

Grant Administrator

Attachment II-12-5

Sample
Findings and Determination Format
(May be used for both Initial and Final Determinations)

Date:

Subject: **Initial (Final) Determination**

References: (**Auditee**)

Audit Number:
Audit Period:
Amount Questioned:
Amount Allowed:
Amount Disallowed:
Amount Subject to Debt Collection: (for Final Determination only)
Number of Administrative Findings:
Number of Uncorrected Administrative Findings:

Introduction: This is the Initial Determination on the resolution of **(select)**:

- Questioned costs and administrative findings
- Administrative findings
- Questioned costs.

Recommendations pertaining to the Employment and Training Administration (ETA) programs are contained in the above referenced audit. These programs are administered by the (**Auditee**). The audit was performed by (**Audit Firm**) pursuant to the provisions of OMB Circular A-133 and issued on (**Date**).

The audit report (**select**):

- Questioned $___ in costs
- Identified _____ administrative/procedural weakness(es)
- Questioned $_____ in costs and identified _____ administrative/procedural weakness(es).

The **(Auditee's)** response to the audit report was taken into consideration in the preparation of this Initial Determination.

Finding Number

(**Format/Content**) The order of findings should correspond to the order in the audit report with administrative findings listed first and questioned costs findings listed second. Findings contain the following:

- Amount and nature of the questioned cost or nature of the administrative finding
- Citation of appropriate regulations, circular, issuances, or agreements that were violated
- Appropriate explanatory information, including any subrecipient's attempt to support cost or administrative deficiencies
- Explanation of whether costs were adequately supported or if the administrative deficiency was corrected.

Determination

(**Format/Content**) The determination should include:

- Basis upon which the auditee's response was accepted or rejected
- Precise statement as to whether questioned costs are allowed or disallowed (if appropriate)
- Precise statement as to whether or not the finding (administrative) is corrected.

Attachment II-12-6

Sample
Final Determination Transmittal Letter
Uncorrected Administrative Findings

Date:

Reference: Initial Determination Dated:

Address of Auditee:

Dear Mr./Ms.:

This is in reference to the recent Initial Determination on the audit of the Employment and Training Administration (ETA) program operated by the **(City of Example, Department of Training)**. The Initial Determination was issued on the date referenced above.

The audit report contains administrative findings. No costs were questioned. Enclosed is my Final Determination on the audit findings summarized as follows:

Audit Report Number:
Audit Period:
Questioned Costs: none
Number of Administrative Findings:
Number of Uncorrected Administrative Findings:

Corrective action is required to address the administrative findings. Uncorrected administrative findings are tracked until effective corrective action is implemented or other resolution occurs which meets the approval of the (**Grantee**). Your (**Agency**)(**Organization**) should address the remaining uncorrected issues by developing and implementing the corrective actions needed. Progress reports to (**Grantee**) are due on the first of each month until all findings are corrected.

In accordance with 29 CFR 96.63, your agency may initiate an administrative appeal of ETA-related issues by filing a written request for a hearing with the _____ within ___ working days of receipt of this Final Determination. The request should state your agency's reasons for disputing the determinations.

This Final Determination is subject to review and concurrence by the DOL. Copies of the request for administrative appeal should be provided to this office and to _____.

Sincerely,

Grant Administrator

Attachment II-12-7

Sample
Final Determination Transmittal Letter
Disallowed Costs and Uncorrected Administrative Findings

Reference: Initial Determination Dated:

Address:

Dear Mr./Ms.:

This is in reference to the recent Initial Determination on the audit of the Employment and Training Administration funded programs operated by the (**Auditee**). The Initial Determination was issued on the date referenced above.

The audit report contains questioned costs and administrative findings. Enclosed is my Final Determination on the audit findings summarized as follows:

Audit Report Number:
Audit Period:
Amount Questioned:
Amount Allowed:
Amount Disallowed:
Amount Subject to Debt Collection:
Number of Administrative Findings:
Number of Uncorrected Administrative Findings:

(Add the following bolded sections if costs have been disallowed)

The Final Determination, which is based on all the information available as of the date of this letter, establishes a debt owed to the _____ in the amount of $____. You are hereby requested to pay this amount by sending a cashier's check, drawn on non-Federal funds and payable to the _____, to:

(Name and Address)

In accordance with the (policy affecting debts) interest on this debt shall accrue from the date of this letter. Interest shall be charged at the _____ rate prevailing on that date. If the debt is paid before it becomes delinquent, which is ____ days after the date of this letter, interest shall be waived.

Failure to honor this demand for repayment will result in collection actions being taken pursuant to _____. Delinquent debts that remain outstanding will, in some cases, jeopardize your eligibility for receipt of Federal funds and become the basis for recommending enforced collection through litigation by the State_____.

Corrective action is required to address the administrative findings. Uncorrected administrative findings are tracked until effective corrective action is implemented or other resolution occurs which meets the approval of the State of _____. Your agency should address the remaining uncorrected issues by developing and implementing the corrective actions needed. Periodic progress reports to the State _____ are due on the first of each month until all findings are corrected.

In accordance with _____, your agency may initiate an administrative appeal of by filing a written request for hearing with the _____ within 10 working days of receipt of this Final Determination. The request should state your agency's reasons for disputing the determinations.

A copy of the Final Determination should accompany your request for a hearing and should state specifically those sections of the determination upon which a hearing is requested. Copies of the request for an administrative appeal should be provided to this office.

In the event that no administrative hearing is timely requested, the debt herein established becomes a civil claim of the State of (Awarding Entity). However, in the event that such a hearing is requested and granted, debt collection actions will be suspended, and no interest or other sanctions will be charged or imposed. If, however, the case is dismissed because the appeal request was untimely, interest will be charged retroactively as though an appeal had never been requested.

Copies of the Final Determination are being provided to _____.

Sincerely,

Grant Administrator

Chapter II-13

Disposition of Disallowed Costs

INTRODUCTION

This chapter provides guidance and procedural suggestions on ETA debt collection requirements, the use of offset provisions, and waivers of liability under the WIA. It contains the following sections:

- Federal Options
- Non-Federal Options
- Additional WIA Requirements
- Attachment II-13-1—Sample Payment Demand Letter.

When a resolution process (such as the Initial and Final Determination process) results in a determination by an awarding agency that ETA funds have been misspent, a debt is established. The awarding agency is expected to collect that debt.

Within the ETA, responsibility for debt collection resides in the Division of Financial Systems and Services. The ETA defers collection action when a recipient requests an ALJ hearing on the Grant Officer's Final Determination. Federal debts are most often repaid as a lump sum or as installments (generally over a period of three years or less) in accordance with the Federal Claims Collection Standards, 31 CFR Subtitle B, Chapter IX, Parts 900-904.

FEDERAL OPTIONS

ETA holds its direct recipient liable for all misexpenditures of funds awarded to the recipient. This requirement is formalized in grant award documents or through regulation. The WIA regulations at 20 CFR 667.705 apply this requirement to all WIA Title I grant recipients. For formula allocations to local areas, the regulations hold the political jurisdictions of the local elected official(s) responsible. This is true whether or not a Federal debt has been formally established using the Initial and Final Determination process. However, once a Federal debt is established, either by a Grant Officer's Final Determination or by an ALJ decision and order, the collection process becomes more formalized.

ETA's preferred corrective action for disallowed costs from ETA grant funds is non-Federal cash repayment. The ETA uses a process of three demand letters at about 30-day intervals to demand repayment. If no appeal has been filed, debts are considered delinquent, and subject to accrued interest charges, 30 days after the date of the Final Determination. However,

the ETA is willing to negotiate short-term installment agreements instead of full lump-sum repayments when the circumstances warrant. If the Final Determination has been appealed, then debt collection efforts are suspended, and no interest will accrue, until the appeal has been resolved and a final decision rendered.

Once ETA has issued the three demand letters and has not received payment for the debt, the grantee is subject to the use of offset as a debt collection method. Administrative offset is authorized at 31 U.S.C. 3716 as a means of collecting delinquent final debts that have been established by Federal agencies. Under the U.S. Treasury offset process, Federal agencies may request from the Treasury Department that any current or future funds that become due for payment to a grantee be withheld in the amount of the debt as a means of satisfying the debt. Grantees should be aware that offset against the ETA grant may be used to satisfy debts owed to non-DOL Federal agencies as well as debts owed the DOL, and vice versa. This Federal offset process is distinctly different from the offset provisions under WIA Title I that are addressed later in this chapter.

NON-FEDERAL OPTIONS

The DOL regulations at 29 CFR 96.54 indicate that the State and any other direct recipients are ultimately responsible for ensuring that all grant funds received under ETA-funded programs are appropriately expended. In addition, 29 CFR 97.52 and 95.73 provide the requirements for the collection of any amount due the awarding agency. Thus, States and other direct recipients must hold subrecipients responsible for ETA funds received through a grant and may ultimately hold units of local government and other subrecipients liable for disallowed costs.

Recipient debt collection standards and all policies and procedures flowing from these standards should describe the options for satisfying debts resulting from ETA-funded subgrant misexpenditures. States may already have sufficient debt collection procedures for ETA disallowed costs, but they should review their debt collection procedures to determine their adequacy. Generally, debt collection procedures involve payment demand letters. A sample payment demand letter is provided as Attachment II-13-1 to this chapter.

Non-Federal cash repayment, either as a lump sum or as installments, is a debt collection option available at all levels within the ETA system. If the debt is established after the period for fund availability for the disallowed funds has elapsed, the repayment must be made to ETA.

With the exception discussed in the following section for WIA Title I formula grantees, the U.S. Treasury offset process is not available to grantees for the collection of delinquent debts. Grantees and subgrantees should ensure that adequate debt collection measures have been included in their subgrant documents, and they are cautioned to follow State and local law in collecting the debts.

ADDITIONAL WIA REQUIREMENTS

In addition to the debt collection requirements addressed above, the WIA and its implementing regulations provide additional requirements related to the use of offset and waivers of liability for misexpenditures.

Offset

Use of offset as a method for debt collection under WIA Title I programs is addressed in the Act at Section 184(c) and in the regulations at 20 CFR 667.740. Under these provisions, direct recipients wishing to utilize offset must formally request such an offset from the Grant Officer. The ETA will apply offset against the administrative funds. This option is available only if the debt is not due to gross negligence, a willful disregard of the Act and/or regulations, failure to follow accepted standards of administration, or a pattern of misexpenditure. [20 CFR 667.740(a)(2)]

> **Example:** A debt is established through the audit process against a WIA Title I Dislocated Worker grant for a rapid response activity conducted by the State grant recipient. The Governor requests that offset be used to satisfy the debt. The Grant Officer agrees, and the following year's allotment for Dislocated Workers is reduced by the amount of the debt. The Grant Officer further stipulates that the offset is to be applied to reduce the amount available for administrative expenditures by the amount of the debt, with the expectation that program services will continue to be provided at the level originally required.

The Act and the regulations also provide for offset to be applied at the sub-State level for the WIA Title I formula grants. If the Grant Officer has held a State recipient responsible for misexpenditures incurred by an LWIA, then the State may utilize the offset provisions to collect the debt by deducting the amount of the debt from the subsequent year's allocation to the LWIA. The offset must be applied against the LWIA administrative funds. As with the offset for States, the misexpenditures cannot be due to gross negligence, a willful disregard of the Act and/or regulations, failure to follow accepted standards of administration, or a pattern of misexpenditure by the subgrantee. [20 CFR 667.740(b)] However, the debt is not considered resolved until ETA reduces the State's allotment by a like amount.

> **Example:** The ETA has disallowed costs against an LWIA and requires the State grantee to repay the costs associated with an overpayment to a vendor of $10,000. Following State procedures, the LWIA administrative entity requests offset, and the State agrees and requests an offset of funds from the ETA. The ETA then reduces the subsequent year's allotment to the State and the State would then reduce the administrative funds allocation to the LWIA by $10,000.

Waivers of Liability

The Act, at Section 184(d)(3), provides that the ETA may waive the liability for a debt. To be eligible for a waiver, States must have complied with the factors listed in WIA Section 184(d)(2) and 20 CFR 667.720(c)(1-5). Waiver requests will be considered only if:

- The grantee formally requests the waiver and provides documentation to support its claim of compliance with these requirements
- The misexpenditures occurred at the subrecipient level
- The misexpenditures were not the result of gross negligence, a willful disregard of the Act and/or regulations, failure to follow accepted standards of administration, or fraud
- If the misexpenditures were due to fraud, it must have been perpetrated against the grantee or the subgrantee, and the grantee/subgrantee must have forcefully pursued investigation, prosecution and debt collection against the perpetrator, and further attempts at debt collection would be inappropriate or futile
- The debt associated with the misexpenditures must have been established through the established audit resolution process and the grantees appeals process exhausted.

The Grant Officer will release the grantee from liability only if it is determined that further debt collection would be either inappropriate or prove futile. If the waiver request is made during the ETA audit resolution period, it must be made during informal resolution. If the waiver request relates to a debt established during the grantee's resolution process, then a copy of the audit resolution document(s) or a resolution report must accompany the request.

> **Example:** A State establishes a debt against an LWIA for tuition payments made through an ITA to an ineligible participant. The LWIA has a system for eligibility determination, followed its own procedures for establishing ITAs and payments, cutoff payments upon discovering the ineligible status, and requested repayment from the participant. The LWIA has determined that debt collection from the participant would prove futile, as the participant has now left the area. It requests a waiver of liability from the grantee and provides adequate documentation to support the request. The waiver request is then forwarded to the Grant Officer, along with a resolution report by the grantee.

Advance Approval for Corrective Action

A direct grantee may also request approval from the Grant Officer for contemplated debt collection actions it plans either to begin or to forego. The request must include a description of the establishment of the debt and all actions taken by a subrecipient to collect the funds. The Grant Officer may then determine that the grantee may forego collection. The criteria used in making the determination are listed in 20 CFR 667.730(b) and are substantially the same as described in the discussion on waivers. Again, the Grant Officer will approve the request only if the grantee demonstrates that further debt collection would be either inappropriate or prove futile.

Example: A debt is established by the State against an LWIA for an overpayment to a vendor for training materials. The vendor has since gone out of business, and the LWIA has documented all collection actions taken to date. The LWIA, in its request to forego debt collection to the State, has demonstrated that all appropriate internal controls existed to prevent overpayment, that the amount of the overpayment was small, that the vendor no longer exists as a business entity, and any further attempt at collection would prove futile. The State will then request the Grant Officer to approve its proposed waiver of collection activity by the LWIA.

Attachment II-13-1

Sample Payment Demand Letter

Date:

Awarding Agency Name:

Awarding Agency Address:

Notice Number: (30)(60)(90)

Dear **(Name of Official)**:

Please refer to my Final Determination dated _____ (copy attached). In that Final Determination, I disallowed costs of $_____ incurred by _____ (hereinafter called "subrecipient") under its Employment and Training Administration Agreement Number with the **(Awarding Agency)**.

Note: Use either of the following paragraphs (numbered 2 and 3 for reference) only as applicable.

2. That Final Determination offered the grantee an opportunity for a hearing before a Hearing Officer in accordance with **(Grantee General Policy)**. A timely request for such a hearing was not received. Thus, the Final Determination was the final agency action.

3. A hearing was conducted regarding that Final Determination, pursuant to **(Grantee General Policy)**, before a Hearing Officer. The Hearing Officer upheld the attached Final Determination in his/her decision, dated _____. The **(Authority, e.g., Commissioner of Labor)** did not vacate or modify the Hearing Officer's decision within 30 days; thus the Hearing Officer's decision is the final agency action*.

Accordingly, repayment of the $_____ (hereinafter called "the debt") is required immediately. The debt becomes delinquent on **(Date - becomes delinquent in 30 days)**. Interest penalties will be charged on this delinquent debt as specified in my Final Determination.

The attached Final Determination also specifies the sanctions that the **(Awarding Agency)** will impose if the debt is not repaid. We will initiate those sanctions unless (a) the debt is repaid within 30 calendar days of the date of this letter, or (b) I agree in writing to other repayment terms within 30 calendar days of the date of this letter.

The repayment check should be made out to:

(Awarding Agency)

and mailed to:

(Address of Awarding Agency)

You are urged to contact **(Name and Phone Number)** if you have any questions concerning this letter.

Sincerely,

Grant Administrator

*This alternative paragraph must be modified accordingly if the awarding agency modifies the decision of the Hearing Officer.

Chapter II-14

Records Retention

INTRODUCTION

This chapter provides guidance for grantees and subgrantees on proper maintenance of financial and programmatic records. These records must be accessible to authorized Federal and awarding agency staff and verifiable for monitoring, reporting, audit, and evaluation. This chapter contains the following sections:

- Applicability of Requirements
- Length of Retention Period
- Other Rules
- Examples.

APPLICABILITY OF REQUIREMENTS

The requirements applicable to States, local governmental entities, and Indian tribal governments are found in 29 CFR 97.42. These requirements apply equally to grantees and subgrantees and include financial and program records, supporting documents, statistical records, and other records that are either required to be held by regulation or grant agreement or could reasonably be considered as pertinent to regulation or the grant agreement.

The records retention and access requirements applicable to institutions of higher education, hospitals, other nonprofits, and commercial organizations are found in 29 CFR 95.53. As with State grantees, these requirements apply equally to both recipients/grantees and subrecipients/subgrantees. The requirements apply to "financial records, supporting documents, statistical records, and all other records pertinent to an award."

LENGTH OF RETENTION PERIOD

Both 29 CFR 97.42 and 29 CFR 95.53 require that records must be retained for three years following the date on which the expenditure report containing the final expenditures charged to a PY's allotment or a grant is submitted to the ETA. For formula grants, for example, if any of the PY 2000 allotment was unexpended by June 30, 2001, and carried over into PY 2001, and the expenditure report (Quarterly Financial Status Report (QFSR)) containing the final expenditures to the PY 2000 allotment is submitted on August 15, 2002, then all PY 2000 records must be retained until August 15, 2005 (three years following August 15, 2002). These

dates assume no audit/litigation problems that would extend the required retention period. For non-formula grants, the grantee is governed by the grant agreement and the applicable requirements of 29 CFR Part 97 or Part 95. For example, if the grant expired on September 30, 2001, and the grantee submitted the final expenditure report on December 29, 2001, then the records related to the grant must be maintained until December 29, 2004 (three years following December 29, 2001). These dates assume no audit/litigation problems that would extend the required retention period. If any litigation, claim, or audit is started before the expiration of the three-year period, the records must be retained until all findings have been resolved and final action taken.

Subrecipient Level

The rules apply equally to recipients and subrecipients under both administrative regulations. This will have a major effect on State or other direct recipients, requiring them to be cognizant of the time limitations on an individual subrecipient basis. There could be a wide variance in record retention requirements for subgrantees. Without a mechanism to track record retention requirements, the grantee runs a risk of records being destroyed by a subgrantee that may be pertinent in the event of a later complaint or audit resolution process, even though records are to be maintained until audits are resolved. One method of resolving this would be for the grantee to take physical custody of any records it feels may fall within this category. While the probability of issues arising may be rare, recipients and subrecipients should carefully review retention time frames.

> **Example:** A subgrantee had a contract with an ending date of June 30, 2001. In accordance with the grantee's closeout policy, a final expenditure report was submitted by the subgrantee on July 25, 2001, triggering the three-year retention period. There were no subsequent audit issues. However, the grantee does not submit its final expenditure report for the funding period until August 15, 2002. Should there be unresolved complaint issues at the grantee level, and records of the subgrantee could aid the grantee in litigation, the grantee would need to take physical custody of the subgrantee records on July 25, 2004, to ensure the records are available. The records would be retained through August 15, 2005, or until the litigation is resolved, whichever is later.

Closeout and Audit Resolution

The record retention period does not start over if final expenditure reports are revised, if these revisions are for the following reasons:

Revisions Resulting from Closeout. Federal Grant Officers must close out each annual grant agreement in a timely period after the award's funding period (three years) has expired. If a final expenditure report is revised, the record retention clock is not reset to zero on the date of the submittal of the revision. Such revisions are considered expenditure adjustments and do not alter the initial time period for record retention. The records must be retained for three years from the original submission date of the final expenditure report.

Revisions Resulting from Litigation, Audit/Audit Resolution, or Claim. Generally, records must be maintained for three years following the submission of the final expenditure report or until all issues resulting from litigation, audit/audit resolution, or claims have been resolved and final action taken, whichever is longer. If financial reports must be revised based on resolution activities, the record retention clock is not reset to zero on the date that the adjusted financial report is submitted.

OTHER RULES

Retention Rules

The following retention rules apply to specific records:

- **Real Property and Equipment Records** must be retained for three years after final disposition of the property. [29 CFR 97.42(c)(2)] [29 CFR 95.53(b)(2)]

- **WIA Title I Complaint Records** and actions related to resolving complaints shall be maintained for not less than three years from the date of resolving the complaint. [29 CFR 37.39] In addition, grantees and subgrantees must follow the requirements of 29 CFR Part 37 if a WIA Title I grantee, as these regulations apply to the entire organization receiving WIA funds. These records should be maintained as a whole record system.

- **Litigation/Audit Records** are to be retained beyond the prescribed period if any litigation or audit has begun, or if a claim is instituted involving the grant or agreement covered by the records. In these instances, the records must be retained until resolution of the litigation, audit, or claim and final action is taken; or until the end of the regular three-year record retention period, whichever is later. [29 CFR 97.42(b)(2)] [29 CFR 95.53(b)(l)] Failure to obtain an audit extends the record retention requirement indefinitely. A delay in obtaining an audit or in resolving audit findings extends the record retention period until all audit requirements have been satisfied and all findings have been resolved to the satisfaction of the awarding agency.

- **Indirect Cost Records, such as computations or proposals, cost allocation plans, and supporting documentation and records,** must be retained for three years from the date the indirect cost rate package is submitted for negotiation. If not submitted for negotiation, the records must be maintained for three years from the end of the Fiscal/Program Year that contains the final grant costs.

Custody of Records

To avoid duplicate record keeping, grant recipients may make special arrangements with subrecipients, vendors, and others to retain records that are continuously needed for joint use. The grant recipient may request transfer of records to its custody when it determines that the records possess long-term value. When the records are transferred to or maintained by the grant recipient, the retention requirement does not apply to the entity that relinquished its records.

Termination of Relationship

When the relationship with a subrecipient is terminated, the subrecipient's responsibility for maintenance and retention of records does not end. However, the grant recipient may want to take custody of the records to assure that they are available if needed in instances where the subrecipient is unable (e.g., going out of business) to physically retain them.

Record Storage

Records shall be retained and stored in a manner that will preserve their integrity and admissibility as evidence in any audit/litigation or other proceeding. The burden of production and authentication of the records shall be on the custodian of the records.

Microfilmed or photocopied records can be substituted for original records because they are generally accepted (unless questions as to authenticity are raised) as admissible for evidentiary purposes. [29 CFR 18.1002-1003] The ETA does not take a position on the use of electronic media for the storage of records, but this should not be construed to mean that they cannot be used. Due to rapid advances in technology, the better approach is for the recipient or subrecipient to specify the record storage criteria that must be met for whatever medium, including electronic media or other storage media, is used. When choosing media for record retention, the custodian must ensure security safeguards and protections sufficient for the records to be accepted by a court as evidence.

As in any case in which a record is maintained, the burden of producing and authenticating it is on the custodian of the record, and failure to authenticate the record will deny the custodian the right to use it for any evidentiary purpose. Thus, if a grantee maintains its participant eligibility records on computer files and is unable to show that the records were secure or were tamperproof, the records cannot be used to prove that participants were eligible for services they receive. 29 CFR 18.902 contains additional requirements related to the admissibility of records in evidence.

Access to Records

The DOL, the Comptroller General of the United States, the grant recipient, or any of their authorized representatives have the timely and unrestricted right of access to pertinent books, documents, papers, or other records of grant recipients, subrecipients, vendors, and others to make audits, examinations, excerpts, and transcripts. The rights of access are not limited to the required retention period but last as long as the records are retained. For WIA Title I grant recipients, the Director – Office of Civil Rights has the same rights of access described above per the requirements of 29 CFR Part 37.

Recipients/subrecipients have the right and responsibility to define conditions (i.e., time and place) for providing access to reports and records permitting the tracing of funds, with the exceptions specified in the Act at Section 185(A)(4).

The Freedom of Information Act and Privacy Act (5 U.S.C. 552 and 552a) generally do not apply to ETA-funded records in the possession of recipients and subrecipients. The provisions of these Acts apply to recipients'/subrecipients' records only if they have been transferred to the Secretary of Labor. There may be limited occasions in which the Privacy Act could apply to records under the provisions of 5 U.S.C. 552a(m)(1).

Fees for information requests may be charged only to recover the costs of processing such as copying costs.

Disaster Recovery

Occasionally, records are destroyed by fires, vandalism, or natural disasters such as floods, storms, and earthquakes. The recipient should ensure that each entity with record retention responsibility has a satisfactory plan of record recovery if critical records are lost. An example is off-site storage of computerized/microfilmed records.

Additional Considerations

In implementing record retention policies, recipients and subrecipients must consider State and local policies and requirements. However, these local requirements cannot be less restrictive than the Federal requirements. All entities should also consider State statutes of limitations and the importance of records in the event of unforeseen litigation.

EXAMPLES

Example: Based on the record retention requirements, the outside date for the State-level retention of PY 2000 WIA Title I records is September 30, 2006. This example assumes no litigation/financial report revision issues:

Program Year 2000 ends	6/30/01
End of second program year	6/30/02
End of third program year	6/30/03
Final financial report submitted 90 days after end of third year	9/28/03
End of three-year retention period	9/28/06

Example: Funds allotted for PY 2001 are fully exhausted on March 30, 2003. A final expenditure report for PY 2001 funds is submitted to the ETA on June 28, 2003. For purposes of record retention, the key date is when the final financial report was submitted to ETA, i.e., June 28, 2003. The three-year record retention clock begins on June 28, 2003, and runs out on June 28, 2006, assuming that no audit or litigation issues have arisen.

The key point of this example is that, if funds for a particular funding period are exhausted in advance of the allowed three-year period of availability, a final expenditure report must be submitted for that PY, which will trigger the record

retention clock. In this example, if no litigation has been initiated or no claim is instituted, and the required audit has been obtained and there are no unresolved audit findings, then the records may be destroyed after June 28, 2006.

Chapter II-15

Agreement Closeouts

INTRODUCTION

Each recipient is responsible for developing and maintaining a system to comply with the closeout requirements specified at 29 CFR 97.50 and 29 CFR 95.71. The closeout requirements contained in the DOL regulations apply only to direct ETA grant recipients. Subrecipients are indirectly affected, because recipients must establish a process to ensure their own compliance with ETA's closeout requirements. This chapter clarifies the distinction between recipient and subrecipient closeout requirements, provides some suggestions for development of subrecipient closeout procedures, and describes the formats currently in use by ETA for closeouts. It contains the following sections:

- The Federal/Recipient Closeout Process
- The Grantee's Closeout Procedures
- Designing an Effective Closeout Process
- Current DOL Closeout Packages
- Summary.

What the Regulations Require

The requirements for closeout of ETA-funded grants are found at 29 CFR 97.50 and 95.71. They are substantially the same for governmental and non-governmental grantees and require the following:

- All obligations must be liquidated and final expenditure reports submitted within 90 days of the grant expiration date, unless the time frame is extended by the DOL.
- The DOL must make prompt payment of any additional funds due the grantee.
- The grantee must promptly refund any funds not fully liquidated within the 90-day period.
- Non-governmental grantees must account for both real and personal property acquired with Federal funds or received from the Federal government. [29 CFR 95.71]
- Governmental grantees must provide a list of Federally owned property. [29 CFR 97.50]
- The DOL reserves the right for further grant adjustments based on audit findings.

THE FEDERAL/RECIPIENT CLOSEOUT PROCESS

The requirements at 29 CFR 97.50 and 95.71 apply only to grants between DOL and recipients. They do not apply to the recipients' subgrants with subrecipients or subrecipients' agreements with other organizations. Recipients and subrecipients are responsible for developing the closeout procedures that they will use to close out their subgrants and agreements and adequately account for the financial activities related to the ETA-funded grants. In developing closeout procedures, the grantee must comply with the terms and conditions of the grant award as well as with the regulations.

The requirement that States/recipients submit final financial reports within 90 days after the end of the three-year funding period *does not apply to subrecipients*. States/recipients must establish closeout procedures for their subrecipients with due dates set far enough in advance of their own Federally required deadline that they will be able to meet it.

The requirements for closeout flow down from the recipient to the subrecipient. Any delay in the timely and accurate submission of Federally required closeout documents may impact the grantee's ability to receive grants from the ETA in the future. Therefore, grantees are cautioned to carefully review all closeout instructions and letters received from the ETA.

The ETA currently utilizes two separate closeout reporting packages, one for governmental grantees and one for non-governmental grantees. The closeout documents are discussed further in this chapter.

In order to successfully complete the Federal closeout process, recipients should adhere to the following:

- Grantee financial staff must be familiar with the terms and conditions and financial reporting requirements of the grant.

- In order to finalize the closeout process, the grant agreement must be updated through a modification if there have been any changes in address, telephone numbers, signatory officials, etc.

- If indirect costs have been claimed, the Indirect Cost Negotiation Agreement or Cost Allocation Plan must be provided. If the rate was provisional, the grantee is responsible for requesting a final rate from the appropriate cognizant agency. The grantee must submit a proposal to its cognizant agency requesting final rates within six months after the end of the fiscal year. The closeout will be subject to revision by the ETA if the final rate is lower than the reported provisional rate. Grantees are urged to obtain the final indirect cost rate prior to closeout. If the final rate is higher than the provisional rate, and the rate is obtained subsequent to closeout, there may not be sufficient funds remaining in the grant for payment. Conversely, if the final rate is lower than the provisional rate, the grantee must refund any indirect costs claimed in excess of the actual approved rate.

- All drawdowns must be made before the closeout documents are submitted. If refunds are due the DOL upon closeout, these are to be made electronically though the Department of Health and Human Services (DHHS)/Payment Management System (PMS) in accordance with the grant drawdown procedures. Rebates, refunds, and credits received after the PMS is no longer available should be refunded by check or warrant.

THE GRANTEE'S CLOSEOUT PROCEDURES

The objectives of a successful closeout process, whether of a recipient or subrecipient, should be:

- To ensure that recipients/subrecipients can meet the Federal closeout requirements by the required due date
- To ensure that organizations receiving funds know ahead of time what actions are required for closeout and what conditions must exist at closeout
- To ensure that each organization receiving funds can fulfill its closeout responsibilities to the organization that funded it
- To ensure that organizations receiving funds understand that certain rights of awarding agencies continue beyond closeout

- To identify problems/issues that frequently arise subsequent to closeout, and to prescribe a way to handle them that minimizes the effort required to resolve them.

DESIGNING AN EFFECTIVE CLOSEOUT PROCESS

Closeout documentation requirements should be kept to the minimum necessary to achieve effective closeouts and to prevent as many post-closeout problems as possible. This may be accomplished by establishing and disseminating a well-designed policy that clearly defines what conditions must exist for closeout, what the rights and responsibilities of the various parties are after closeout, how to handle unresolved issues remaining at closeout deadlines, and how to address issues/problems arising after closeout.

The following are some of the issues that should be addressed in any closeout policies and procedures developed for subgrantees:

- The subgrantee should close and settle its contracts/subgrants and reconcile all financial activity related to the grant prior to closing the agreement with its funding agency.

- All refunds due the awarding agency must be made before the closeout or submitted with the closeout documents.

- A closeout due date must be established for subgrantees that provides sufficient time for the funding organization to resolve issues in advance of its own closeout due date.

- A decision must be made whether to close subgrants as subgrantees are ready or to use a single closeout date for all subgrantees for a specific year of funding.

- Identification must be made of financial reports that are required for closeout. At a minimum, there should be a "final" report in the format that is routinely required of the organization closing the agreement. The reports should be no more complicated than is necessary to verify that all financial requirements have been met.

- The procedure for handling unclaimed/uncashed checks must be decided. State or local escheat legislation should be followed in addressing this issue. This will impact the Federal closeout process also.

- The procedure for handling pending claims and late arriving invoices after closeout must be addressed. Grantees should attempt to minimize any late claims, as costs not incurred prior to the expiration of the grant may not be paid.

- A decision must be made regarding how any refunds, rebates, or credits received after closeout will be handled as the Uniform Administrative Requirements necessitate.

- Reconciliation of grantor/grantee records must be addressed to ensure that expenditures are equal to or less than budget, and that cash received, appropriately adjusted, equals expenditures.

- How grantee- and subgrantee-owned property is to be treated at the end of the agreement must be determined. Property disposition requirements are discussed in Chapter II-11, *Property Management*.

- Closure of any special bank accounts required for the subagreement must be effected. This does not occur with direct grants.

- Fidelity bonds, if they were required for the subagreement, must be canceled. This is not a requirement for direct grants.

- Rights and responsibilities of the various parties after closeout has occurred must be determined, specifically those items addressed at 29 CFR 95.72 and 29 CFR 97.51, and any additional requirements established by the grantee or other funding organization. These rights and responsibilities include:

    - The awarding entity's right to disallow costs and recover funds on the basis of a later audit or other review
    - The funded organization's responsibility to return any funds due as a result of later refunds, corrections, subrecipient audit disallowances, or other transactions
    - Record retention and requirements for public access to records
    - Property management requirements
    - Audit and audit resolution requirements
    - Notification to the subgrantee that closeout documentation is in order and that closeout has officially occurred.

CURRENT DOL CLOSEOUT PACKAGES

The DOL currently uses two different closeout packages for grants. One package is for governmental grantees and the other for non-governmental grantees. Each of the packages is described in the following subsections.

Governmental Grantees

Among the forms required for the closeout of governmental grantees are the final financial report (either the SF 269 or the appropriate QFSR) and a Federally owned property listing. ETA also requires a listing of equipment with a current fair market value of $5,000 or more to which the DOL reserves the right to take title. The ETA closeout instructions provide further guidance to grantees in finalizing their closeouts:

- The costs of closeout may be charged to the grant for costs incurred during the 90-day closeout period. These costs may include costs related to staff reductions or office closings, staff costs to perform closeout activities, and audit costs. However, these costs do not include additional program or participant services costs.

- Unliquidated obligations may be liquidated until final reports are submitted.

- If indirect costs have been charged to the grant, a copy of the Indirect Cost Negotiation Agreement or Cost Allocation Plan must be submitted. The grantee must submit a proposal to its cognizant agency requesting final rates within six months after the end of the fiscal year.

- Final drawdowns should be made so that final grant costs equal final grant revenues. If a refund must be made to the DOL to achieve that equality, then this should be made through the PMS.

- Instructions for the return of later adjustments or disallowances are provided.

Non-Governmental Grantees

Non-governmental grantees must complete a different set of closeout forms. The package consists of the following forms:

- Grantee's Submittal of Closeout Documents
- Financial Status Report (the appropriate QFSR for WIA grantees or the SF 269)
- If necessary, a copy of the approved indirect cost rate
- Grantee's release
- Grantee's assignment of refunds, rebates, and credits
- Government property closeout inventory certification
- Grantee's closeout tax certification.

Each of these forms is described below.

Grantee's Submittal of Closeout Documents. A cover sheet that lists all the documents included in the closeout package. This sheet may also be used by the grantee to track the adequacy/accuracy of the subgrantee's closeout submittal.

Financial Status Report. The ETA has opted to use the QFSR as the final report format for WIA grants. Other direct grantees will use either a modified SF 269 or the SF 269 as required by their reporting instructions. This report will be completed on a cash basis within the final closeout period. If indirect costs have been claimed, the remarks section of the QFSR must identify the amount of indirect costs charged to the grant and the formula used to arrive at the final costs charged.

Indirect Cost Rate. If indirect costs have been charged to the grant, a copy of the provisional or final rate must be included. If the grant is closed based on a provisional rate and the final rate is lower, the grantee is required to recalculate indirect costs and return all excess indirect costs within 45 days of the final rate approval letter.

Grantee's Release. The grantee certifies the release of the grantor agency from further monetary obligations under the grant. Certain specifically identified claims such as unclaimed wages (subject to escheat laws), Worker's Compensation claims, or other outstanding claims must be identified and the list attached to the grantee's release.

Grantee's Assignment of Refunds, Rebates, and Credits. The grantee waives claim to any refunds, rebates, or credits received after the grant has terminated and assures prompt remittance to the grantor agency.

Government Property Closeout Inventory Certification. This form provides for an inventory of all real or personal property purchases acquired with grant funds or received from the Federal government where the DOL reserves the right to take title, or a certification that no such property was acquired with grant funds.

Grantee's Closeout Tax Certification. This document provides assurances that the grantee/subgrantee has complied with all applicable tax requirements.

SUMMARY

In closeout, as with other subjects, care must be taken in interpretation of applicable statutes and regulations to ensure that requirements of recipients are not indiscriminately applied to subrecipients and that excess paperwork is not generated in the closeout process. Grantees must develop timetables and procedures that produce effective closeouts and meet the Federal final expenditure report submittal requirement of 90 days after the end of the three-year funding period.

Appendices

This part consists of five appendices to the technical content of Parts I and II. These appendices provide additional information and resources available to grantees and subgrantees to aid them in the proper management of One-Stop operations and ETA-funded grant programs. Appendices A through E are organized as follows:

Appendix A, *Cross-Reference of Administrative Requirements*, provides a chart indicating administrative requirements by type of organization.

Appendix B, *Applicable OMB Circulars and Related Regulations*, includes a listing of all the applicable circulars and the codification of circulars by DOL for use in ETA grant programs.

Appendix C, *Internet Resources*, includes a listing of resources available through the Internet to obtain the circulars and other financial and grant management information.

Appendix D, *Glossary of Terms and Acronyms*, defines financial terms applicable to grant programs drawn from the regulations and applicable circulars. Appendix D also presents a list of acronyms used in the document.

Appendix E, *Subrecipient and Vendor Distinctions*, provides assistance in distinguishing subrecipients from vendors. The contents of this appendix are based on the distinctions between subrecipient and vendor discussed in OMB Circular A-133 as codified for DOL grant programs at 29 CFR Part 99.

Appendix A

Cross Reference of Administrative Requirements

Requirement	Governmental Organizations	Nonprofit Organizations	Institutions of Higher Education	Commercial Organizations
Audit	29 CFR Part 99	29 CFR Part 99	29 CFR Part 99	29 CFR Part 96
Audit Resolution	29 CFR Part 96	29 CFR Part 96	29 CFR Part 96	Same
Basic Principles for Allowable Costs	A-87 Attachment A	A-122 Attachment A	A-21 Section C	48 CFR 31.201 through 204
Treatment of Selected Items of Cost	A-87 Attachment B	A-122 Attachment B	A-21 Section J	48 CFR 31.205
Uniform Administrative Requirements	29 CFR Part 97	29 CFR Part 95	29 CFR Part 95	29 CFR Part 95 (grants only)
Lobbying Restrictions	29 CFR Part 93	29 CFR Part 93	29 CFR Part 93	29 CFR Part 93
Suspension and Debarment	29 CFR Part 98 Subparts A-E	29 CFR Part 98 Subparts A-E	29 CFR Part 98 Subparts A-E	29 CFR Part 98 Subparts A-E
Drug-Free Workplace	29 CFR Part 98 Subpart F	29 CFR Part 98 Subpart F	29 CFR Part 98 Subpart F	29 CFR Part 98 Subpart F
Non-Discrimination (Civil Rights)	29 CFR Part 31	29 CFR Part 31	29 CFR Part 31	29 CFR Part 31
Non-Discrimination (Basis of Handicap)	29 CFR Part 32	29 CFR Part 32	29 CFR Part 32	29 CFR Part 32
EO Requirements (WIA only)	29 CFR Part 37	29 CFR Part 37	29 CFR Part 37	29 CFR Part 37

Note: Additional requirements may be contained in program regulations related to ETA-funded grant programs.

Appendix B

OMB Circulars and Related Regulations

COST PRINCIPLES

OMB Circular A-21	*Cost Principles for Educational Institutions*
OMB Circular A-87	*Cost Principles for State, Local and Indian Tribal Governments*
OMB Circular A-122	*Cost Principles for Non-Profit Organizations*
48 CFR Chapter 1, Part 31	*Contract Cost Principles and Procedures* (Commercial Organizations)

ADMINISTRATIVE REQUIREMENTS

29 CFR Part 95	*Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations, and with Commercial Organizations, Foreign Governments, Organizations Under the Jurisdiction of Foreign Governments, and International Organizations* (Based on OMB Circular A-110)
29 CFR Part 97	*Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments* (Based on OMB Circular A-102)

AUDIT REGULATIONS AND REQUIREMENTS

29 CFR Part 96	*Audit Requirements for Grants, Contracts and Other Agreements*
29 CFR Part 99	*Audits of States, Local Governments and Non-Profit Organizations* (Based on OMB Circular A-133)
OMB Circular A-50	*Audit Followup*

MISCELLANEOUS DOL PROVISIONS

29 CFR Part 93	*Department of Labor Lobbying Regulations*
29 CFR Part 98	*Government-wide Debarment and Suspension (Nonprocurement) and Government-wide Requirements for Drug Free Workplace (Grants)*
29 CFR Part 31	*Nondiscrimination in Federally Assisted Programs of the Department of Labor— Effectuation of Title VI of the Civil Rights Act of 1964*
29 CFR Part 32	*Enforcement of Nondiscrimination on the Basis of Handicap in Programs or Activities Receiving or Benefiting from Federal Financial Assistance*
29 CFR Part 37	*Implementation of the Nondiscrimination and Equal Opportunity Provisions of the Workforce Investment Act of 1998 (WIA)*

Appendix C

Internet Resources

A listing of World Wide Web sites that provide guidance and information on audits, public funds, financial management, administrative requirements for Federal funding, and the programs covered by this TAG is presented below. Internet addresses change with some regularity, and this listing is current as of July 2002. If the listed address is wrong, a short search will usually result in obtaining the correct address.

REQUIRED PARTNERS

http://www.doleta.gov/ United States (U.S.) Department of Labor (DOL), Employment and Training Administration (ETA) Web site. This is ETA's home page, containing links to ETA programs, policy issues, and news releases. On the home page, "ETA Headlines" is updated frequently and contains items new and noteworthy, such as regulatory updates, solicitations for grant applications, and training opportunities.

http://wtw.doleta.gov/ The ETA's Welfare-to-Work (WtW) home page. This site provides information and links to regulations, policy guidance, grant applications, training opportunities, etc.

http://www.dol.gov/vets The home page of the DOL's Veterans' Employment and Training Services, or VETS. In support of the VETS two major programs—the Disabled Veterans' Outreach Program and the Local Veterans' Employment Representatives Program—the site contains news updates, policy memorandums, and a regulations library.

http://www.doleta.gov/usworkforce This Web site was formerly know as www.usworkforce.org. Provides Information on the Workforce Investment Act (WIA). This is an ETA Web site that consolidates WIA policy guidelines and implementation resources and has links to the other WIA partners, such as Migrant and Seasonal Farmworkers and the Indian and Native American programs. On the home page, the "What's New?" portion is updated almost daily and contains important information on funding guidance, training opportunities, and policy and regulatory information.

http://www.doleta.gov/programs/adtrain.asp The ETA's adult programs Web site. This site provides information on adult training programs under WIA Title IB and provides links to additional ETA programs and information.

http://www.doleta.gov/layoff This Web site provides information on the Dislocated Workers programs authorized under Title IB of the WIA to workers, employers, and workforce development professionals. It also provides a link to the Web site for Trade Adjustment Act (TAA) programs.

http://www.doleta.gov/youth_services The ETA's Youth programs Web site. This site contains information about the youth employment and training activities authorized by the WIA, including Youth Opportunity grants and the Job Corps.

http://www.ed.gov The home page of the U.S. Department of Education (ED). This comprehensive Web site contains information on ED programs and offices, grants information, and current news and informational notices pertinent to ED programs.

http://workforcesecurity.doleta.gov/ The ETA's Web site for information on Wagner-Peyser, Unemployment Insurance (UI), Trade Act, North American Free Trade Agreement (NAFTA), and other programs. This site may also be accessed using the address http://ows.doleta.gov.

http://jobcorps.doleta.gov The Web page for information on the Job Corps program funded under Title IC of the WIA. This site has information on enrollment in Job Corps, job placement, and employer resources.

http://www.doleta.gov/individ/apprent.asp This is an ETA site that provides basic information on apprenticeship training.

http://www.doleta.gov/uses This is the Web site for the United States Employment Service (USES). An ETA site, the USES is authorized under the Wagner-Peyser Act. This site has links to the Work Opportunity Tax Credit program, the Foreign Labor Certification program, America's Job Bank, America's Labor Market Information System, and more.

http://www.ed.gov/offices/OVAE/adusite.html As part of the Department of Education's Office of Vocational and Adult Education (OVAE), this Web site provides information on adult education and literacy programs funded by ED.

http://www.ed.gov/offices/OVAE/vocsite.html This is also an OVAE Web site, providing information on vocational education.

http://www.ed.gov/offices/OSERS/RSA/ The home page for the Department of Education's Rehabilitation Services Administration (RSA). Through services, training, research, and economic opportunities, RSA supports individuals with disabilities.

http://wdsc.doleta.gov/seniors The Web site of the Senior Community Service Employment Program, or SCSEP. Funded under Title V of the Older Americans Act, SCSEP serves low-income persons who are age 55 or older and have poor employment prospects.

http://wdsc.doleta.gov/trade_act This is an ETA Web site that offers information on Trade Adjustment Assistance and NAFTA-Transitional Adjustment Assistance.

http://aspe.os.dhhs.gov/cfda/p93569.htm This site provides information from the Catalog of Federal Domestic Assistance (CFDA) on eligibility, application, and awards under the Community Services Block Grant Act.

http://www.acf.dhhs.gov/programs/ocs/#Programs This is the Web site of the Office of Community Services, Administration for Children and Families, U.S. Department of Health and Human Services (DHHS).

http://www.hud.gov/progdesc/stepup.cfm This Web site covers employment and training services carried out by the U.S. Department of Housing and Urban Development (HUD).

http://wdsc.doleta.gov/dinap/ This is the Web site of the Division of Indian and Native American Programs (DINAP). Native American programs are authorized at Section 166 of the WIA. This site has a "What's New?" section, as well as posting of DINAP bulletins.

http://wdsc.doleta.gov/msfw/ The Web site of the National Farmworkers Jobs Program (NFJP) of the ETA. The site contains links to a resource library, as well as NFJP bulletins.

ADDITIONAL PARTNERS

http://www.acf.dhhs.gov/programs/ofa The U.S. Department of Health and Human Services (DHHS) site for the Administration for Children and Families, the agency responsible for the Temporary Assistance to Needy Families (TANF) program.

http://www.stw.ed.gov The Web site of the National School-to-Work Office, containing information on grants, resources, and training opportunities.

http://www.doleta.gov/atels_bat The Web site of the new Office of Apprenticeship Training, Employer and Labor Services (ATELS). The site contains information on the National Apprenticeship System.

http://www.fta.dot.gov/wtw/notebk.html Information on the U.S. Department of Transportation, Federal Transit Administration's WtW "Job Access and Reverse Commute" program.

REGULATIONS AND CIRCULARS

http://www.access.gpo.gov/nara/cfr/waisidx National Archives and Records Administration index site for the Code of Federal Regulations (CFR). Provides links to specific regulations, *Federal Register* notices, public laws, and Privacy Act issuances.

http://www.gao.gov The site for the General Accounting Office (GAO). Provides links to a financial audit manual, Comptroller General decisions, and GAO audit reports.

http://www.whitehouse.gov/OMB/ The Office of Management and Budget (OMB) Web site. Provides links to all OMB circulars, compliance supplements, and OMB policy.

http://www.dol.gov/dol/regs/main.htm The DOL's Office of the Assistant Secretary for Administration and Management(OASAM). Link to DOL regulations for OMB circulars.

http://www.dol.gov/oasam/programs/guide.htm This is a link to the DOL/OASAM publication, *Indirect Cost Rate Determination Guide, Cost Principles and Procedures for Non-Profit Organizations*.

http://www.hhs.gov/grantsnet This HHS link is for ASMB C-10, *Implementation Guide for OMB Circular A-87*.

http://www.archives.gov The home page of the National Archives and Records Administration.

http://www.access.gpo.gov/nara National Archives and Records Administration, Office of the Federal Register home page. This site provides access to Federal regulations, public laws, and other public documents.

http://www.oig.dol.gov/public/programs/oa/single_audit/main.htm This site, maintained by the DOL Office of the Inspector General, Office of Audit, provides a link to a pamphlet prepared by the Federal Chief Financial Officers titled *Highlights of the Single Audit Process*. In addition to the pamphlet, there is a brochure titled *Single Audit Basics and Where to Get Help*. These documents have been designed to provide a basic understanding of the single audit process.

OTHER FINANCIAL MANAGEMENT RESOURCES

http://www.financenet.gov This Web site previously provided Federal government-wide financial requirements and information. It now provides links to various Web sites that use to be located on FinanceNet.

http://fms.treas.gov U.S. Treasury Department financial information site. Also has links to other government financial resource pages, including a link to for the Cash Management Improvement Act (CMIA) program.

http://thomas.loc.gov/ The Library of Congress THOMAS System, a complete Congressional resource system. This site tracks legislation, committees, and all members.

http://www.lcweb.loc.gov The Library of Congress home page. This site is an excellent beginning place for research.

http://nawb.org The homepage of the National Association of Workforce Boards.

http://www.icesa.org/about.cfm The official Web site for State Workforce Security Agencies (formerly the Employment Service). See also http://www.workforceatm.org.

http://wdr.doleta.gov/practices The ETA's site for Workforce Development Practices (Dislocated Workers, Quality, Technology, UI/Workforce Security, Veterans, WIA-Implementation, Youth.)

http://cfda.gov/ The Web site for the Catalog of Federal Domestic Assistance, or CFDA. The CFDA is a government-wide compendium of Federal programs, projects, services, and activities. The CFDA contains financial information pertaining to all programs administered by Federal agencies.

Appendix D

Glossary of Terms and Acronyms

GLOSSARY OF TERMS

This glossary defines financial terms applicable to the Employment and Training Administration (ETA) program referenced in this Technical Assistance Guide (TAG). It also defines programmatic terms where they have an impact on financial requirements, such as cost classification. These definitions apply to all ETA-funded programs. Source(s) are cited as appropriate. The definitions are

- Extracted directly from the "definitions" sections of the Workforce Investment Act (WIA) (PL 105-220 29 USC Sec 2801 et seq.) and/or corresponding WIA regulations (20 CFR 660.300)
- Extracted from other Federal sources, i.e., Treasury regulations related to the Cash Management Improvement Act (CMIA)
- Taken from Office of Management and Budget (OMB) circulars and related regulations.

In some instances, there may be more than one definition of a single term. To the extent possible, this TAG uses the more extensive definition or the definition found in the legislation. If additional explanatory information has been added to the definition, it is <u>underlined</u>. In addition, some terms may have similar definitions but are named differently, i.e., grant and award. These terms have been cross-referenced whenever possible.

Following the glossary is a list of acronyms used in both Part I and Part II of the TAG.

Accrued expenditures. The charges incurred by the grantee during a given period requiring the provision of funds for (1) goods and other tangible property received; (2) services performed by employees, contractors, subgrantees, subcontractors, and other payees; and (3) other amounts becoming owed (<u>by the grantee</u>) under programs for which no current services or performance is required, such as annuities, insurance claims, and other benefit payments. [29 CFR 97.3]

Accrued income. The sum of (1) earnings during a given period from services performed by the grantee and goods and other tangible property delivered to purchasers and (2) amounts becoming owed to the grantee for which no current services or performance is required by the grantee. [29 CFR 97.3]

Acquisition cost of equipment. The net invoice price of the equipment, including the cost of modifications, attachments, accessories, or auxiliary apparatus necessary to make the property

usable for the purpose for which it was acquired. Other charges, such as the cost of installation, transportation, taxes, duty, or protective in-transit insurance, shall be included or excluded from the unit acquisition cost in accordance with the recipient's regular accounting practices. [29 CFR 95.2, 29 CFR 97.3]

Act. For the purposes of this TAG, Act means the Workforce Investment Act (WIA). If another legislative act is referenced, it will include the entire proper name of the legislation.

Administrative requirements. Those matters common to grants in general, such as financial management, kinds and frequency of reports, and retention of records. These are distinguished from *programmatic* requirements, which concern matters that can be treated only on a program-by-program or grant-by-grant basis, such as kinds of activities that can be supported by grants under a particular program. [29 CFR 97.3]

Adult. Except in Sections 127 and 132, the term "adult" means an individual who is age 18 or older. [WIA Section 101]

Adult education; adult education and literacy activities. The terms "adult education" and "adult education and literacy activities" have the meanings given the terms in Section 203. [WIA Section 101]

Advance. A payment made by U.S. Treasury check or other appropriate payment mechanism to a recipient upon its request either before outlays are made by the recipient or through the use of predetermined payment schedules. [29 CFR 95.2]

Approval or authorization of the awarding or cognizant Federal agency. Documentation evidencing consent prior to incurring a specific cost. If such costs are specifically identified in a Federal award document, approval of the document constitutes approval of the costs. If the costs are covered by a State/local cost allocation plan or an indirect cost proposal, approval of the plan constitutes the approval. [OMB Circular A-87]

Area vocational education school. The term "area vocational education school" has the meaning given the term in Section 521 of the Carl D. Perkins Vocational and Applied Technology Education Act (20 U.S.C. 2471). [WIA Section 101]

Award. Financial assistance that provides support or stimulation to accomplish a public purpose. Awards include grants and other agreements in the form of money or property in lieu of money, by the DOL to an eligible recipient. The term does not include technical assistance, which provides services instead of money; other assistance in the form of loans, loan guarantees, interest subsidies, or insurance; direct payments of any kind to individuals; or contracts that are required to be entered into and administered under procurement laws and regulations. (See **Grant**.) [29 CFR 95.2]

Awarding agency. (a) With respect to a grant, cooperative agreement, or cost reimbursement contract, the Federal agency, or (b) with respect to a subgrant, the party that awarded the subgrant. [OMB Circular A-87, 29 CFR 97.3]

Basic skills deficient. The term "basic skills deficient" means, with respect to an individual, that the individual has English reading, writing, or computing skills at or below the eighth grade level on a generally accepted standardized test or a comparable score on a criterion-referenced test. [WIA Section 101]

Calendar Year. The period between January 1 and December 31 of any year. For example, calendar year 2001 is January 1, 2001, through December 31, 2001.

Case management. The term "case management" means the provision of a client-centered approach in the delivery of services, designed (a) to prepare and coordinate comprehensive employment plans, such as service strategies, for participants to ensure access to necessary workforce investment activities and supportive services, using, where feasible, computer-based technologies, and (b) to provide job and career counseling during program participation and after job placement. [WIA Section 101]

Cash contributions. The grantee's cash outlay, including the outlay of money contributed to the grantee or subgrantee by other public agencies and institutions, and private organizations and individuals. [29 CFR 97.3 and 95.2] When authorized by Federal legislation, Federal funds received from other assistance agreements may be considered as grantee or subgrantee cash contributions. [29 CFR 97.3 only]

Central service cost allocation plan. The documentation identifying, accumulating, and allocating or developing billing rates based on the allowable costs of services provided by a governmental unit on a centralized basis to its departments and agencies. The costs of these services may be allocated or billed to users. [OMB Circular A-87]

CFDA number. The number assigned to a Federal program in the Catalog of Federal Domestic Assistance (CFDA). [29 CFR 99.105]

Check. A negotiable demand draft or warrant. [31 CFR 205.3 (CMIA)]

Chief elected official. (a) The chief elected executive officer of a unit of general local government in a local area, or (b) in a case in which a local area includes more than one unit of general local government, the individuals designated under the agreement described in Section 117(c)(1)(B). [WIA Section 101]

Claim. A written demand or written assertion by the governmental unit or grantor seeking, as a matter of right, the payment of money in a sum certain, the adjustment or interpretation of award terms, or other relief arising under or relating to the award. A voucher, invoice, or other routine request for payment that is not a dispute when submitted is not a claim. Appeals, such as those filed by a governmental unit in response to questioned audit costs, are not considered claims until a final management decision is made by the Federal awarding agency. [OMB Circular A-87]

Clearance pattern. The frequency distribution showing the proportion of a total amount disbursed that is debited to the payer's bank account each day after the disbursement. [31 CFR 205.3 (CMIA)]

Closeout. The process by which the DOL determines that all applicable administrative actions and all required work of the award have been completed by the recipient and the DOL. [29 CFR 95.2]

Cognizant agency. The Federal agency responsible for reviewing, negotiating, and approving cost allocation plans or indirect cost proposals developed under this circular on behalf of all Federal agencies. OMB publishes a listing of cognizant agencies. Ordinarily, the Federal agency providing the bulk of the funding is the cognizant agency. [OMB Circular A-87]

Cognizant agency for audit. The Federal awarding agency that provides the predominant amount of direct funding to a direct recipient unless OMB makes a specific agency cognizant for audit. [29 CFR 99.400(a)]

Commercial organization. Any business entity organized primarily for profit (even if its ownership is in the hands of a nonprofit entity) with a place of business located in or outside the United States. The term includes, but is not limited to, an individual, partnership, corporation, joint venture, association, or cooperative. [29 CFR 95.2]

Common Rule. The *Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments; Final Rule*, originally issued at 53 FR 8034-8103 (March 11, 1988). Other common rules will be referred to by their specific titles. [OMB Circular A-87]

Community-based organization. A private nonprofit organization that is representative of a community or a significant segment of a community and that has demonstrated expertise and effectiveness in the field of workforce investment. [WIA Section 101]

Contract. A mutually binding legal relationship obligating the seller to furnish the supplies or services (including construction) and the buyer to pay for them. It includes all types of commitments that obligate the government to an expenditure of appropriated funds and that, except as otherwise authorized, are in writing. In addition to bilateral instruments, contracts include (but are not limited to) awards and notices of awards; job orders or task orders issued under basic ordering agreements; letter contracts; orders, such as purchase orders, under which the contract becomes effective by written acceptance or performance; and bilateral contract modifications. Contracts do not include grants and cooperative agreements covered by 31 U.S.C. 6301 et seq. [OMB Circular A-87]

Corrective action. Action taken by the auditee that (1) corrects identified deficiencies, (2) produces recommended improvements, or (3) demonstrates that audit findings are either invalid or do not warrant auditee action. [29 CFR 99.105]

Cost. An amount as determined on a cash, accrual, or other basis acceptable to the Federal awarding or cognizant agency. It does not include transfers to a general or similar fund. [OMB Circular A-87]

Cost allocation plan (CAP). Central service cost allocation plan, public assistance cost allocation plan, and indirect cost rate proposal. [OMB Circular A-87]

Cost objective. A function, organizational subdivision, contract, grant, or other activity for which cost data is needed and for which costs are incurred. [OMB Circular A-87]

Cost sharing or matching. The value of the third party in-kind contributions and the portion of the costs of a Federally assisted project or program not borne by the Federal government. [29 CFR 97.3]

Cost-type contract. A contract or subcontract under a grant in which the contractor or subcontractor is paid on the basis of the costs it incurs, with or without a fee. [29 CFR 97.3]

Customized training. Training (a) that is designed to meet the special requirements of an employer (including a group of employers), (b) that is conducted with a commitment by the employer to employ an individual on successful completion of the training, and (c) for which the employer pays for not less than 50 percent of the cost of the training. [WIA Section 101]

Date of completion. The date on which all work under an award is completed or the date on the award document, or any supplement or amendment thereto, on which DOL sponsorship ends. [29 CFR 95.2]

Day. A calendar day unless specified otherwise. [31 CFR 205.3 (CMIA)]

Department or **DOL.** The United States Department of Labor, including its agencies and organizational units. [20 CFR 660.300]

Designated region. A combination of local areas that are partly or completely in a single labor market area, economic development region, or other appropriate contiguous subarea of a State that is designated by the State under WIA Section 116(c), or a similar interstate region that is designated by two or more States under WIA Section 116(c)(4). [20 CFR 660.300]

Disallowed costs. Those charges to an award that the DOL determines to be unallowable, in accordance with the applicable Federal cost principles or other terms and conditions contained in the award. [29 CFR 95.2]

Dislocated worker. An individual who

(a) (i) has been terminated or laid off, or who has received a notice of termination or layoff, from employment;
(ii)(I) is eligible for or has exhausted entitlement to unemployment compensation; or
(II) has been employed for a duration sufficient to demonstrate, to the appropriate entity at a One-Stop center referred to in Section 134(c), attachment to the workforce, but is not eligible for unemployment compensation due to insufficient earnings or having performed services for an employer that were not covered under a State unemployment compensation law; and
(iii) is unlikely to return to a previous industry or occupation;

(b) (i) has been terminated or laid off, or has received a notice of termination or layoff, from employment as a result of any permanent closure of, or any substantial layoff at, a plant, facility, or enterprise;
(ii) is employed at a facility at which the employer has made a general announcement that such facility will close within 180 days; or
(iii) for purposes of eligibility to receive services other than training services described in Section 134(d)(4), intensive services described in Section 134(d)(3), or supportive services, is employed at a facility at which the employer has made a general announcement that such facility will close;
(c) was self-employed (including employment as a farmer, a rancher, or a fisherman) but is unemployed as a result of general economic conditions in the community in which the individual resides or because of natural disasters; or
(d) is a displaced homemaker. [WIA Section 101]

Displaced homemaker. An individual who has been providing unpaid services to family members in the home and who (a) has been dependent on the income of another family member but is no longer supported by that income, and (b) is unemployed or underemployed and is experiencing difficulty in obtaining or upgrading employment. [WIA Section 101]

Drawdown. Any process whereby States <u>and other direct recipients</u> request and receive Federal funds. Drawdown also means any process where subrecipients request and receive Federal funds from the primary recipient. [31 CFR 205.3 (CMIA)]

Economic development agencies. The term "economic development agencies" includes local planning and zoning commissions or boards, community development agencies, and other local agencies and institutions responsible for regulating, promoting, or assisting in local economic development. [WIA Section 101]

Eligible youth. Except as provided in subtitles C and D, the term "eligible youth" means an individual who
(a) is not less than age 14 and not more than age 21;
(b) is a low-income individual; and
(c) is an individual who is one or more of the following:
(i) deficient in basic literacy skills
(ii) a school dropout
(iii) homeless, a runaway, or a foster child
(iv) pregnant or a parent
(v) an offender
(vi) an individual who requires additional assistance to complete an educational program, or to secure and hold employment. [WIA Section 101]

Eligible provider. The term "eligible provider," used with respect to (a) training services, means a provider who is identified in accordance with Section 122(e)(3); (b) intensive services, means a provider who is identified or awarded a contract as described in Section 134(d)(3)(B); (c) youth activities, means a provider who is awarded a grant or contract in accordance with Section 123; or (d) other workforce investment activities, means a public or private entity

selected to be responsible for such activities, such as a One-Stop operator designated or certified under Section 121(d). [WIA Section 101]

Employment and training activity. An activity described in Section 134 that is carried out for an adult or dislocated worker. [WIA Section 101] [20 CFR 660.300]

EO data. Data on race and ethnicity, age, sex, and disability required by regulations implementing Section 188 of WIA governing nondiscrimination. These regulations are found at 29 CFR Part 37. [20 CFR 660.300]

Equipment. Tangible nonexpendable personal property, including exempt property charged directly to the award, having a useful life of more than one year and an acquisition cost of $5,000 or more per unit. However, consistent with recipient policy, lower limits may be established. Equipment includes, but is not limited to, equipment acquired before the publication of these regulations and equipment transferred from prior years. [29 CFR 95.2] A grantee may use its own definition of equipment provided that such definition at least includes all equipment defined above. [29 CFR 97.3]

ETA. The Employment and Training Administration of the U.S. DOL. [20 CFR 660.300]

Excess property. Property under the control of the DOL that, as determined by the Secretary of Labor, is no longer required for its needs or the discharge of its responsibilities. [29 CFR 95.2]

Exempt property. Tangible personal property acquired in whole or in part with Federal funds, where the DOL has statutory authority to vest title in the recipient without further obligation to the Federal government. [29 CFR 95.2]

Expenditure report. For nonconstruction grants, the SF 269 "Financial Status Report" (or other equivalent report. For the WIA Title IB programs, this is the Quarterly Financial Status Report). [29 CFR 97.3]

Family. Two or more persons related by blood, marriage, or decree of court, who are living in a single residence, and are included in one or more of the following categories: (a) a husband, wife, and dependent children; (b) a parent or guardian and dependent children; (c) A husband and wife. [WIA Section 101]

Federal agency. Any United States executive department, military department, government corporation, government-controlled corporation, any other establishment in the Executive Branch (including the Executive Office of the President), or any independent regulatory agency. [29 CFR 95.2]

Federal award. Federal financial assistance and Federal cost-reimbursement contracts that non-Federal entities receive directly from Federal awarding agencies or indirectly from pass-through entities. It does not include procurement contracts, under grants or contracts, used to buy goods or services from vendors. Any audits of such vendors shall be covered by the terms and conditions of the contract. [29 CFR 99.105]

Federal awarding agency. The Federal agency that provides an award to the recipient. [OMB Circular A-110]

Federal financial assistance. Assistance that non-Federal entities receive or administer in the form of grants, loans, loan guarantees, property (including donated surplus property), cooperative agreements, interest subsidies, insurance, food commodities, direct appropriations, and other assistance, but does not include amounts received as reimbursement for services rendered to individuals as described in Sections 99.205(h) and 99.205(i). [29 CFR 99.105]

Federal Fiscal Year (FY). The period between October 1 of a calendar year and September 30 of the following calendar year, with the subsequent year as the FY designator. For example, Fiscal Year 2002 or FY2002 is the period between October 1, 2001, and September 30, 2002.

Federal funds authorized. The total amount of Federal funds obligated by the DOL for use by the recipient. This amount may include any authorized carryover of unobligated funds from prior funding periods when permitted by the DOL's regulations or implementing instructions. [29 CFR 95.2]

Federal share. Of real property, equipment, or supplies, that percentage of the property's acquisition costs and any improvement expenditures paid with Federal funds. [OMB Circular A-110]

Federally recognized Indian tribal government. The governing body or a governmental agency of any Indian tribe, band, nation, or other organized group or community (including any native village as defined in Section 3 of the Alaska Native Claims Settlement Act, 85 Stat 688) certified by the Secretary of the Interior as eligible for the special programs and services provided by him through the Bureau of Indian Affairs. [29 CFR 97.3]

GAAP. Generally Accepted Accounting Principles. Accounting rules and procedures established by authoritative bodies or conventions that have evolved through custom and common usage. Has the meaning specified in generally accepted government auditing standards (GAGAS). [OMB Circular A-133] Issued by the American Institute of Certified Public Accountants (AICPA). [29 CFR 99.105]

GAGAS. Generally Accepted Government Auditing Standards issued by the Comptroller General of the United States, which are applicable to financial audits. [29 CFR 99.105]

Government. A State or local government or a Federally recognized Indian tribal government. [29 CFR 97.3]

Governmental unit. The entire State, local, or Federally recognized Indian tribal government, including any component thereof. Components of governmental units may function independently of the governmental unit in accordance with the term of the award. [OMB Circular A-87]

Governor. The chief executive of a State. [WIA Section 101]

Grant. An award of financial assistance, including cooperative agreements, in the form of money, or property in lieu of money, by the Federal government to an eligible grantee. The term does not include technical assistance that provides services instead of money, or other assistance in the form of revenue sharing, loans, loan guarantees, interest subsidies, insurance, or direct appropriations. Also, the term does not include assistance, such as a fellowship or other lump sum award, which the grantee is not required to account for (see **Award**). [29 CFR 97.3] For WIA, it means an award of WIA financial assistance by the DOL to an eligible WIA recipient. [20 CFR 660.300]

Grantee. The direct recipient of grant funds from the DOL. A grantee may also be referred to as a recipient. [20 CFR 660.300] The grantee is the entire legal entity even if only a particular component of the entity is designated in the grant award document. [29 CFR 97.3]

Grantee department or agency. The component of a State, local, or Federally recognized Indian tribal government that is responsible for the performance or administration of all or some part of a Federal award. [OMB Circular A-87]

Grant officer. Any person authorized to enter into, modify, or terminate any financial assistance awards and make related determinations and findings. DOL grant officers shall be designated by name on a "Certificate of Appointment." [29 CFR 95.2]

Indirect cost rate proposal. The documentation prepared by a governmental unit or component thereof to substantiate its request for the establishment of an indirect cost rate as described in Attachment E of the circular. [OMB Circular A-87] Indirect cost rates are not unique to governmental agencies and are addressed in all the OMB cost circulars.

Individual with a disability. (a) In general, an individual with any disability (as defined in Section 3 of the Americans with Disabilities Act of 1990 (42 U.S.C. 12102)); (b) "individuals with disabilities" means more than one individual with a disability. [WIA Section 101]

Intangible property and debt instruments. Include, but are not limited to, trademarks, copyrights, patents, and patent applications; and such property as loans, notes, and other debt instruments; lease agreements; stock; and other instruments of property ownership, whether considered tangible or intangible. [29 CFR 95.2]

Internal control. A process, effected by an entity's management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories: (1) effectiveness and efficiency of operations, (2) reliability of financial reporting, and (3) compliance with applicable laws and regulations. [29 CFR 99.105]

Internal control pertaining to the compliance requirements for Federal programs (internal control over Federal programs). A process, effected by an entity's management and other personnel, designed to provide reasonable assurance regarding the achievement of the following objectives for Federal programs. (1) Transactions are properly recorded and accounted for to (a) permit the preparation of reliable financial statements and Federal reports; (b) maintain accountability over assets; and (c) demonstrate compliance with laws, regulations, and other

compliance requirements. (2) Transactions are executed in compliance with (a) laws, regulations, and the provisions of contracts or grant agreements that could have a direct and material effect on a Federal program; and (b) any other laws and regulations that are identified in the compliance supplement. (3) Funds, property, and other assets are safeguarded against loss from unauthorized use or disposition. [29 CFR 99.105)]

Labor market area. An economically integrated geographic area within which individuals can reside and find employment within a reasonable distance or can readily change employment without changing their place of residence. Such an area shall be identified in accordance with criteria used by the Bureau of Labor Statistics of the DOL in defining such areas or similar criteria established by a Governor. [WIA Section 101]

Leasehold improvements. Improvements to leased property made by the lessee that usually revert to the lessor at the end of the life of the lease. If the lessee constructs new buildings on the land or reconstructs and improves existing buildings, the lessee has the right to use such facilities during the life of the lease, but they become the property of the lessor when the lease expires. [GAAP]

Literacy. An individual's ability to read, write, and speak in English, and to compute, and solve problems, at levels of proficiency necessary to function on the job, in the family of the individual, and in society. [20 CFR 660.300]

Local area. A Local Workforce Investment Area (LWIA) designated under Section 116. [WIA Section 101]

Local Board. A Local Workforce Investment Board (LWIB) established under WIA Section 117, to set policy for the local workforce investment system. [20 CFR 660.300]

Local educational agency. The term "local educational agency" has the meaning given the term in Section 14101 of the Elementary and Secondary Education Act of 1965 (20 U.S.C. 8801). [WIA Section 101]

Local government. A county, municipality, city, town, township, local public authority (including any public and Indian housing agency under the United States Housing Act of 1937), school district, special district, intrastate district, council of governments (whether or not incorporated as a nonprofit corporation under State law), any other regional or interstate government entity, or any agency or instrumentality of a local government. [29 CFR 97.3]

Local performance measure. A performance measure established under Section 136(c). [WIA Section 101]

Low-income individual. An individual who

(a) receives, or is a member of a family that receives, cash payments under a Federal, State, or local income-based public assistance program;
(b) received an income, or is a member of a family that received a total family income, for the six-month period prior to application for the program involved (exclusive of

unemployment compensation, child support payments, payments described in subparagraph (a), and old-age and survivors' insurance benefits received under Section 202 of the Social Security Act (42 U.S.C. 402)) that, in relation to family size, does not exceed the higher of

(i) the poverty line, for an equivalent period; or

(ii) 70 percent of the lower living standard income level, for an equivalent period;

(c) is a member of a household that receives (or has been determined within the six-month period prior to application for the program involved to be eligible to receive) food stamps pursuant to the Food Stamp Act of 1977 (7 U.S.C. 2011 et seq.);

(d) qualifies as a homeless individual, as defined in Subsections (a) and (c) of Section 103 of the Stewart B. McKinney Homeless Assistance Act (42 U.S.C. 11302);

(e) is a foster child on behalf of whom State or local government payments are made; or

(f) in cases permitted by regulations promulgated by the Secretary of Labor, is an individual with a disability whose own income meets the requirements of a program described in subparagraph (a) or of subparagraph (b), but who is a member of a family whose income does not meet such requirements. [WIA Section 101]

Lower living standard income level. That income level (adjusted for regional, metropolitan, urban, and rural differences and family size) determined annually by the Secretary of Labor based on the most recent lower living family budget issued by the Secretary. [WIA Section 101]

Major program. A Federal program determined by the auditor to be a major program in accordance with Section 99.520 or a program identified as a major program by a Federal agency or pass-through entity in accordance with Section 99.215(c). A threshold of $300,000 or 3 percent of total Federal expenditures is the usual standard, subject to the requirement of the regulations. [29 CFR 99.105]

Nonprofit organization. Any corporation, trust, association, cooperative, or other organization which (1) is operated primarily for scientific, educational, service, charitable, or similar purposes in the public interest; (2) is not organized primarily for profit; and (3) uses its net proceeds to maintain, improve, and/or expand its operations. For this purpose, the term "nonprofit organization" excludes (a) colleges and universities; (b) hospitals; (c) State, local, and Federally recognized Indian tribal governments; and (d) those nonprofit organizations that are excluded from coverage of this circular in accordance with Paragraph 5. The organizations excluded from coverage are large and operate as commercial concerns for purposes of applicability of cost principles. They are listed in Attachment C to the circular. [OMB Circular A-122]

Nontraditional employment. Occupations or fields of work for which individuals from one gender comprise less than 25 percent of the individuals employed in each such occupation or field of work. [WIA Section 101]

Obligations. The amounts of orders placed, contracts and subgrants awarded, goods and services received, and similar transactions during a given period that will require payment by the grantee during the same or a future period. [29 CFR 97.3] For purposes of the reallotment process described at 20 CFR 667.150, the Secretary also treats as State obligations any amount allocated by the State under WIA Sections 128(b) and 133(b) to a single area State or to a

balance of State local area administered by a unit of the State government, and inter-agency transfers and other actions treated by the State as encumbrances against amounts reserved by the State under WIA Sections 128(a) and 133(a) for Statewide workforce investment activities. [20 CFR 667.300]

Offender. Any adult or juvenile (a) who is or has been subject to any stage of the criminal justice process, for whom services under this Act may be beneficial; or (b) who requires assistance in overcoming artificial barriers to employment resulting from a record of arrest or conviction. [WIA Section 101]

Older individual. An individual age 55 or older. [WIA Section 101]

OMB. The United States Office of Management and Budget. [29 CFR 97.3]

On-the-job training. Training by an employer that is provided to a paid participant while engaged in productive work in a job that (a) provides knowledge or skills essential to the full and adequate performance of the job; (b) provides reimbursement to the employer of up to 50 percent of the wage rate of the participant, for the extraordinary costs of providing the training and additional supervision related to the training; and (c) is limited in duration as appropriate to the occupation for which the participant is being trained, taking into account the content of the training, the prior work experience of the participant, and the service strategy of the participant, as appropriate. [WIA Section 101]

One-Stop operator. One or more entities designated or certified under Section 121(d). [WIA Section 101]

One-Stop partner. (a) An entity described in Section 121(b)(1); and (b) an entity described in Section 121(b)(2) that is participating, with the approval of the local board and chief elected official, in the operation of a One-Stop delivery system. [WIA Section 101]

Operating Lease. A lease that does not qualify as a capital lease. [GAAP]

Out-of-school youth. (a) an eligible youth who is a school dropout; or (b) an eligible youth who has received a secondary school diploma or its equivalent but is basic-skills deficient, unemployed, or underemployed. [WIA Section 101]

Outlays (expenditures). Charges made to the project or program. They may be reported on a cash or accrual basis. For reports prepared on a cash basis, outlays are the sum of actual cash disbursement for direct charges for goods and services, the amount of indirect expense incurred, the value of in-kind contributions applied, and the amount of cash advances and payments made to contractors and subgrantees. For reports prepared on an accrued expenditure basis, outlays are the sum of actual cash disbursements, the amount of indirect expense incurred, the value of in-kind contributions applied, and the new increase (or decrease) in the amounts owed by the grantee for goods and other property received, for services performed by employees, contractors, subgrantees, subcontractors, and other payees, and other amounts becoming owed under programs for which no current services or performance are required, such as annuities, insurance

claims, and other benefit payments. [29 CFR 97.3] ETA requires outlays (expenditures) to be reported on an accrual basis.

Outlying area. The United States Virgin Islands, Guam, American Samoa, the Commonwealth of the Northern Mariana Islands, the Republic of the Marshall Islands, the Federated States of Micronesia, and The Republic of Palau. [WIA Section 101] [20 CFR 660.300]

Participant. An individual who has been determined to be eligible to participate in and who is receiving services (except follow-up services authorized under this title) under a program authorized by this title. Participation shall be deemed to commence on the first day, following determination of eligibility, on which the individual began receiving subsidized employment, training, or other services provided under this title. [WIA Section 101] Also, a participant is a person registered under 20 CFR 663.105 or 664.215. [20 CFR 660.300]

Personal property. Property of any kind except real property. It may be tangible, having physical existence, or intangible, having no physical existence, such as copyrights, patents, or securities. [29 CFR 95.2]

Postsecondary educational institution. An institution of higher education, as defined in Section 481 of the Higher Education Act of 1965 (20 U.S.C. 1088). [WIA Section 101]

Poverty line. Poverty line (as defined by OMB and revised annually in accordance with Section 673(2) of the Community Services Block Grant Act (42 U.S.C. 9902(2))) applicable to a family of the size involved. [WIA Section 101]

Prior approval. Securing the awarding agency's permission in advance to incur cost for those items that are designated as requiring prior approval by the circular. Generally, this permission will be in writing. Where an item of cost requiring prior approval is specified in the budget of an award, approval of the budget constitutes approval of that cost. [OMB Circular A-122]

Program income. Gross income earned by the recipient that is directly generated by a supported activity or earned as a result of the award (see exclusions in Section 95.24(e) and (h)). Program income includes, but is not limited to, income from fees for services performed, the use or rental of real or personal property acquired under Federally funded projects, the sale of commodities or items fabricated under an award, license fees and royalties on patents and copyrights, and interest on loans made with award funds. Interest earned on advances of Federal funds is not program income. Except as otherwise provided in Federal awarding agency regulations or the terms and conditions of the award, program income does not include the receipt of principal on loans, rebates, credits, discounts, etc., or interest earned on any of them. [29 CFR 95.2]

Program Year (PY). The period between July 1 of a calendar year and June 30 of the following calendar year. The PY designator is the year the period begins. For example, Program Year 2001 or PY2001 is the period between July 1, 2001 and June 30, 2002.

Project costs. All allowable costs, as set forth in the applicable Federal cost principles, incurred by a recipient, and the value of the contributions made by third parties in accomplishing the objectives of the award during the project period. [29 CFR 95.2]

Project period. The period established in the award document during which Federal sponsorship begins and ends. [29 CFR 95.2]

Property. Unless otherwise stated, real property, equipment, intangible property, and debt instruments. [29 CFR 95.2]

Public assistance. Federal, State, or local government cash payments for which eligibility is determined by a needs or income test. [WIA Section 101]

Public assistance cost allocation plan. A narrative description of the procedures that will be used in identifying, measuring, and allocating all administrative costs to all of the programs administered or supervised by State public assistance agencies as described in Attachment D of the circular. [OMB Circular A-87]

Questioned cost. A cost that is questioned by the auditor because of an audit finding (1) that resulted from a violation or possible violation of a provision of a law, regulation, contract, grant, cooperative agreement, or other agreement or document governing the use of Federal funds, including funds used to match Federal funds; (2) where the costs, at the time of the audit, are not supported by adequate documentation; or (3) where the costs incurred appear unreasonable and do not reflect the actions a prudent person would take in the circumstances. [29 CFR 99.105]

Rapid response activity. An activity provided by a State, or by an entity designated by a State, with funds provided by the State under Section 134(a)(1)(A), in the case of a permanent closure or mass layoff at a plant, facility, or enterprise, or a natural or other disaster, that results in mass job dislocation, in order to assist dislocated workers in obtaining reemployment as soon as possible, with services including

(a) the establishment of on-site contact with employers and employee representatives
   (i) immediately after the State is notified of a current or projected permanent closure or mass layoff; or
   (ii) in the case of a disaster, immediately after the State is made aware of mass job dislocation as a result of such disaster
(b) the provision of information and access to available employment and training activities
(c) assistance in establishing a labor-management committee, voluntarily agreed to by labor and management, with the ability to devise and implement a strategy for assessing the employment and training needs of dislocated workers and obtaining services to meet such needs
(d) the provision of emergency assistance adapted to the particular closure, layoff, or disaster
(e) the provision of assistance to the local community in developing a coordinated response and in obtaining access to State economic development assistance. [WIA Section 101]

Real property. Land, including land improvements, structures, and appurtenances thereto, excluding movable machinery and equipment. [29 CFR 97.3] Real property includes, but is not limited to, real property acquired before publication of these regulations and real property transferred from prior years. [29 CFR 95.2]

Recipient. An organization receiving financial assistance directly from the DOL to carry out a project or program. The term includes public and private institutions of higher education, public and private hospitals, and other quasi-public and private nonprofit organizations such as, but not limited to, community action agencies, research institutes, educational associations, and health centers. The term also includes commercial organizations and foreign or international organizations (such as agencies of the United Nations) that are recipients, subrecipients, or contractors or subcontractors of recipients or subrecipients. [29 CFR 95.2] The State is the recipient of funds awarded under WIA Sections 127(b)(1)(C)(i)(II), 132(b)(1)(B) and 132(b)(2)(B). [20 CFR 660.300]

Register. The process for collecting information to determine an individual's eligibility for services under WIA Title I. Individuals may be registered in a variety ways, as described in 20 CFR 663.105 and 20 CFR 664.215. [20 CFR 660.300]

Request for funds. A solicitation for funds that is completed and submitted in accordance with Federal agency guidelines. Request for funds also means a properly and fully completed application requesting funds that is submitted by the subrecipient in accordance with State guidelines. [31 CFR 205.3 (CMIA)]

Secondary school. The term "secondary school" has the meaning given the term in Section 14101 of the Elementary and Secondary Education Act of 1965 (20 U.S.C. 8801). [WIA Section 101]

Secretary. Secretary of Labor, and the term means such Secretary for purposes of Section 503. [WIA Section 101]

Self-certification. An individual's signed attestation that the information he/she submits to demonstrate eligibility for a program under Title I of WIA is true and accurate. [20 CFR 660.300]

Share. When referring to the awarding agency's portion of real property, equipment, or supplies, means the same percentage as the awarding agency's portion of the acquiring party's total costs under the grant to which the acquisition cost of the property was charged. Only costs are to be counted, not the value of third-party in-kind contributions. [29 CFR 97.3]

Small award. A grant or cooperative agreement not exceeding the small purchase [simplified acquisition] threshold fixed at 41 U.S.C. Section 403(11) (currently $100,000). [29 CFR 95.2]

State board. A State workforce investment board established under Section 111. [WIA Section 101] [20 CFR 660.300]

State. Each of the several States of the United States, the District of Columbia, and the Commonwealth of Puerto Rico. [WIA Section 101] State does not include outlying areas. [20 CFR 660.300]

Subgrant. An award of financial assistance in the form of money, or property in lieu of money, made under a grant by a grantee to an eligible subgrantee. The term includes financial assistance when provided by contractual legal agreement but does not include procurement purchases, nor does it include any form of assistance that is excluded from the definition of grant in this part. [29 CFR 97.3]

Subgrantee. The government or other legal entity to which a subgrant is awarded and which is accountable to the grantee for the use of the funds provided. [29 CFR 97.3]

Subrecipient. A non-Federal entity that expends Federal awards received from a pass-through entity to carry out a Federal program but does not include an individual who is a beneficiary of such a program. A subrecipient may also be a recipient of other Federal awards directly from a Federal awarding agency. Guidance on distinguishing between a subrecipient and a vendor is provided in Section 99.210. [29 CFR 99.105]

Supplies. All personal property excluding equipment, intangible property, and debt instruments as defined in this section, and inventions of a contractor conceived or first actually reduced to practice in the performance of work under a funding agreement ("subject inventions"), as defined in 37 CFR Part 401, *Rights to Inventions Made by Nonprofit Organizations and Small Business Firms Under Government Grants, Contracts, and Cooperative Agreements*. [29 CFR 95.2]

Supportive services. Services such as transportation, child care, dependent care, housing, and needs-related payments that are necessary to enable an individual to participate in activities authorized under this title, consistent with the provisions of this title. [WIA Section 101]

Suspension. Depending on the context, either (1) temporary withdrawal of the authority to obligate grant funds pending corrective action by the grantee or subgrantee or a decision to terminate the grant, or (2) an action taken by a suspending official in accordance with agency regulations implementing Executive Order 12549 to immediately exclude a person from participating in grant transactions for a period, pending completion of an investigation and such legal or debarment proceedings as may ensue. [29 CFR 97.3]

Termination. Permanent withdrawal of the authority to obligate previously awarded grant funds before that authority would otherwise expire. Also, the voluntary relinquishment of that authority by the grantee or subgrantee. Termination does not include (1) withdrawal of funds awarded on the basis of the grantee's underestimation of the unobligated balance in a prior period; (2) withdrawal of the unobligated balance as of the expiration of a grant; (3) refusal to extend a grant or award additional funds, to make a competing or noncompeting continuation, renewal, extension, or supplemental award; or (4) voiding of a grant upon determination that the award was obtained fraudulently, or was otherwise illegal or invalid from inception. [29 CFR 97.3]

Terms of a grant or subgrant. All requirements of the grant or subgrant, whether in statute, regulations, or the award document. [29 CFR 97.3]

Third-party in-kind contributions. The value of non-cash contributions provided by non-Federal third parties. Third-party in-kind contributions may be in the form of real property, equipment, supplies, or other expendable property, and the value of goods and services directly benefiting and specifically identifiable to the project or program. [29 CFR 95.2]

Treasury/State agreements. Agreements that set forth the terms and conditions for implementing the funding arrangement for a program or group of programs, between the Federal government and State recipients. The agreement must include, but not be limited to, programs involved, funding techniques, interest calculation method, and clearance pattern method. [31 CFR 205.3 (CMIA)]

Types of compliance requirements. The types of compliance requirements listed in the compliance supplement. Examples include allowed or unallowed activities, allowable costs/cost principles, cash management, eligibility, matching, level of effort, earmarking, and reporting. [29 CFR 99.105]

Unemployed individual. An individual who is without a job and who wants and is available for work. The determination of whether an individual is without a job shall be made in accordance with the criteria used by the Bureau of Labor Statistics of the DOL in defining individuals as unemployed. [WIA Section 101]

Unit of general local government. Any general-purpose political subdivision of a State that has the power to levy taxes and spend funds, as well as general corporate and police powers. [WIA Section 101]

Unliquidated obligations. For reports prepared on a cash basis, the amount of obligations incurred by the grantee that has not been paid. For reports prepared on an accrued expenditure basis, they represent the amount of obligations incurred by the grantee for which an outlay has not been recorded. [29 CFR 97.3]

Unobligated balance. The portion of the funds authorized by the Federal agency that has not been obligated by the grantee and is determined by deducting the cumulative obligations from the cumulative funds authorized. [29 CFR 97.3]

Unrecovered indirect cost. The difference between the amount awarded and the amount that could have been awarded under the recipient's approved negotiated indirect cost rate. [29 CFR 95.2]

Vendor. A dealer, distributor, merchant, or other seller providing goods or services that are required for the conduct of a Federal program. These goods or services may be for an organization's own use or for the use of beneficiaries of the Federal program. [29 CFR 99.105)

Veteran.

(a) Veteran. An individual who served in the active military, naval, or air service, and who was discharged or released from such service under conditions other than dishonorable.

(b) Recently separated veteran. Any veteran who applies for participation under this title within 48 months after the discharge or release from active military, naval, or air service. [WIA Section 101]

Vocational education. The term "vocational education" has the meaning given the term in section 521 of the Carl D. Perkins Vocational and Applied Technology Education Act (20 U.S.C. 2471). [WIA Section 101]

Wagner-Peyser Act. The Wagner-Peyser Act of June 6, 1933, as amended, codified at 29 U.S.C. 49 et seq. [20 CFR 660.300]

WARN. Worker Adjustment and Retraining Notification Act, which offers protection to workers, their families, and communities by requiring employers to provide written notice 60 days in advance of covered plant closings and covered mass layoffs. This notice must be provided to either affected workers or their representatives (e.g., a labor union), to the Dislocated Worker Unit, and to the appropriate unit of local government. [Workforce Tool Kit Glossary]

WIA. Workforce Investment Act. [20 CFR 660.300]

Workforce investment activities. The array of activities permitted under Title I of the WIA, which include employment and training activities for adults and dislocated workers, as described in WIA Section 134, and youth activities, as described in WIA Section 129. [20 CFR 660.300]

Workforce investment activity. An employment and training activity, and a youth activity. [WIA Section 101]

Working capital advance. A procedure whereby funds are advanced to the recipient to cover its estimated disbursement needs for a given initial period. [29 CFR 95.2]

WtW. Welfare-to-Work. [20 CFR 645.120]

Youth council. A council established under Section 117(h). [WIA Section 101]

Youth activity. An activity described in Section 129 that is carried out for eligible youth (or as described in Section 129(c)(5)). [WIA Section 101]

ACRONYMS

ADA	Americans with Disabilities Act
ADM	Administrative Activities
ADR	Alternative Dispute Resolution
AICPA	American Institute of Certified Public Accountants
ALJ	Administrative Law Judge
ARB	Administrative Review Board
AS&T	Administrative Staff and Technical Staff
ASMB	Assistant Secretary for Management and Budget
ATELS	Apprenticeship Training, Employment, and Labor Services
CAP	Cost Allocation Plan
CBO	Community Based Organization
CEO	Chief Elected Official
CFDA	Catalog of Federal Domestic Assistance
CFR	Code of Federal Regulations
CMIA	Cash Management Improvement Act
CPA	Certified Public Accountant
CRA	Construction, Rehabilitation, Acquisition
DHHS	Department of Health and Human Services
DINAP	Division of Indian and Native American Programs
DOL	Department of Labor
DOT	Department of Transportation
ED	Department of Education
EFT	Electronic Funds Transfer
EIMS	Electronic Information Management System
E.O.	Executive Order
EST	Eastern Standard Time
ETA	Employment and Training Administration
FAR	Federal Acquisition Regulation
FD (1)	Findings and Determinations
FD (2)	Final Determination
FICA	Federal Insurance Contributions Act
FP/PBC	Fixed-Price/Performance Based Contract
FSR	Financial Status Report
FTE	Full-Time Equivalent
FY	Fiscal Year
G&A	General and Administrative
GAAP	Generally Accepted Accounting Principles
GAGAS	Generally Accepted Government Auditing Standards
GAO	General Accounting Office
HUD	Department of Housing and Urban Development
ICM	Intake and Case Management Activities
IFB	Invitation for Bid
INA	Indian and Native American
IT	Information Technology

ITA	Individual Training Account
JSA	Job Search Assistance
JTPA	Job Training Partnership Act
LCD	Liquid Crystal Display
LWIA	Local Workforce Investment Area
LWIB	Local Workforce Investment Board
MOU	Memorandum of Understanding
NAFTA	North American Free Trade Agreement
NFJP	National Farmworkers Jobs Program
NOI	Notice of Intent
NOO	Notice of Obligation
NPS	Non-Personnel Services
OALJ	Office of the Administrative Law Judge
OASAM	Office of the Assistant Secretary for Administration and Management
OIG	Office of the Inspector General
OJT	On-the-Job Training
OMB	Office of Management and Budget
OVAE	Office of Vocational and Adult Education
PIN	Personal Identification Number
PMS	Payment Management System
PY	Program Year
QFSR	Quarterly Financial Status Report
RFP	Request for Proposal
RSA (1)	Resource Sharing Agreement
RSA (2)	Rehabilitative Services Administration
RTS	Random Time Sampling
SAA	Single Audit Act of 1984 and the Single Audit Act Amendments of 1996
SCSEP	Senior Community Service Employment Program
SESA	State Employment Service Agency
SF	Standard Form
SGA	Solicitation for Grant Application
SWCAP	State-Wide Cost Allocation Plan
TAA	Trade Adjustment Act
TAG	Technical Assistance Guide
TANF	Temporary Assistance to Needy Families
TEGL	Training and Employment Guidance Letter
THOMAS	The Library of Congress's resource system that tracks legislation, committees, and all members
UI	Unemployment Insurance
U.S.	United States
U.S.C.	United States Code
USDA	U.S. Department of Agriculture
USES	United States Employment Service
USPS	United States Postal Service
WARN	Worker Adjustment and Retraining Notification Act
WIA	Workforce Investment Act
WtW	Welfare to Work

Appendix E

Subrecipient and Vendor Distinctions

The applicability of the Workforce Investment Act (WIA), its regulations, and other program regulations, including the Office of Management and Budget (OMB) circulars, is limited to recipients and subrecipients funded by those programs. Thus, the distinction between subrecipients and vendors becomes critical to the program. Payments received by a vendor for goods or services are not considered to be Federal awards. To aid recipients/grantees and subrecipients/subgrantees in making the proper distinctions, the following guidance is provided. The descriptions have been drawn from 29 CFR 99.210.

SUBRECIPIENTS

A subrecipient is a legal entity to which a subaward of Federal funds is made and that is accountable to the recipient for the use of the funds provided. When the organization performs the following activities, a Federal award to a subrecipient is indicated:

- Determines eligibility for the Federally funded program
- Has its performance measured against the objectives of the Federal program
- Has responsibility for programmatic decision-making
- Has responsibility for adherence to applicable Federal program compliance requirements (for example, the regulations)
- Uses the Federal funds to carry out a program of the organization as opposed to providing goods or services for a program.

VENDORS

A vendor is a dealer, distributor, merchant, or other seller providing goods or services that are required for the conduct of a Federal program. The following activities are indicative of a vendor relationship with an organization:

- Provides the goods and services within normal business operations
- Provides similar goods or services to many different purchasers
- Operates in a competitive environment
- Provides goods or services that are ancillary to the operation of the Federal program
- Is not subject to the Federal compliance requirements of the program.

In making the determinations of subrecipients and vendors, States, direct grantees, Local Workforce Investment Boards (LWIBs), and other subgrantees should take into account all of the characteristics related to the type of provider. When deciding whether a vendor or subrecipient relationship exists, it is the relationship that matters, not the label on the award document, be it grant, contract, subgrant, or subcontract. No one factor should be taken in isolation; all the applicable criteria for each decision should be reviewed. However, under no circumstances should a designation of vendor be made for providers that have a financial or performance requirement related to eligibility or selection of participants. As previously stated, the designations of subrecipient and vendor relate to type of product or service provided, and not to the type of agreement document used or whether that agreement is called a contract or a subgrant.

The following chart includes a list of indicators that may be of assistance in distinguishing subrecipients from vendors. This guidance is based in part on the information found in 29 CFR 99.210.

Indicators of Subrecipient and Vendor Relationships

Factor	Vendor	Subrecipient
Activity [1]	Sell deliverables (goods/services)	Provide services
Assistance Arrangement	Buyer-seller	Financial assistance to operate a program
Closeout Package	Final invoice	Comprehensive
Control	Control is outcome focused	Control is on process
Development Costs	Absorbed	Controlled
Extent of Flexibility	Bound to adhere to specific contract terms	Latitude to make decision within terms of agreement
Federal Rules	N/A	Compliance
On-the-Job Training	Subgrantee developed (direct employer award)	Award to broker
Payment Basis[2]	Is paid for specific deliverable	Is paid for services whether expensed as a deliverable or not
Product	Specific outcomes	Operate a program
Performance Measured[3]	Against the specific requirements of contract	Against the performance outcomes of the financial assistance award
Product Development	Develops product and delivers from inventory	Controls development
Public Policy	Contract specific clauses	Standard statement of assurances
Purpose of the Award	To provide specific goods or services	To carry out a program goal
Receipt of Funds	Number of items delivered	Costs incurred
Risk	Risk to vendor	Share risk with awarding agency
Type of Training Referral	Slotting on an individual referral basis	Filling a class-sized training program
Type of Market	For sale within normal business operation; existing product tailored to the program solicitation	Customized for specific program purposes
Type of Product	Provide specific product or service ancillary to the Federal program	Design a program to meet a broader goal such as performance outcomes

[1] There may be instances where it is possible to obtain the same type of services under either a vendor or a subrecipient award.
[2] Federal reform efforts are now shifting emphasis from paying for process to paying for results. Such performance- and outcome-based payments are possible under both vendor and subrecipient awards.
[3] Same as 2 above.

Overview

A. Purpose and Scope of the Review

The purpose of this review is to ascertain that the sub recipient is administering DOL federal and non-federal awards according to the administrative and financial management requirements that apply to the awards.

The review will cover the program's internal controls, accounting system, cash management system, financial reporting, record keeping, subgrantee monitoring, procurement, property management, and audits. Information is to be obtained from the examination of documents, reports, and records; direct observation; and discussions with key personnel.

The review report will be used to develop information about the sub recipient that may be the basis for corrective action, providing needed documents or technical assistance.

B. Review Preparation

The reviewer must be familiar with the following OMB Circulars and other related laws and regulations:

Cost Principles

OMB Circular A-87 State, Local, and Indian Tribal Governments

OMB Circular A-122 Non-Profit Organizations

OMB Circular A-21 Educational Institutions

48 CFR Chapter 1, Part 31 Contract Cost Principles (Commercial Organizations)

Administrative Requirements

29 CFR Part 95 Higher Education and Non-Profit Organizations

29 CFR Part 97 State and Local Governments

Audit Regulations

29 CFR Part 96 Grants, Contracts, and Other Agreements

29 CFR Part 99 States, Local Governments, and Non-Profit Organizations

OMB Circular A-50 Audit Followup

Miscellaneous

29 CFR Part 98 Debarment and Suspension

29 CFR Part 93 Lobbying Restrictions

Workforce Investment Act of 1998

20 CFR Part 652 Workforce Investment Act; Final Rules

The reviewer should also examine the following material before the comprehensive on-site review.

- Most recent Quarterly Financial Status Reports
- Audit Reports

Before going on-site, the reviewer should contact the grantee to:

- Request copies of the organization's policies and procedures for the following areas provided in the established work space:

  - accounting
  - cash management
  - internal controls
  - financial reporting
  - record keeping
  - monitoring
  - personnel procedures
  - procurement
  - property management
  - audits

Note: These documents may be single issuances or parts of such comprehensive documents as administrative procedural manuals—these may be too voluminous to request copies, perhaps certain sections may be requested, as appropriate.

The reviewer should request that grantees not "pull" any files before the review. This should be done by the reviewer while on-site.

I. On-Site Review Procedures

A. An Overview of Information Collection

The reviewer should interview the appropriate key staff. This can be accomplished by reviewing the entity's organizational chart to determine which key staff should be interviewed and reviewing the entity's functions statements (written and unwritten) to the extent time permits.

B. Testing the Administrative and Financial Management System

1. The reviewer should examine a representative sample of transactions to:

   - Determine whether the transactions were recorded in the accounting system and properly classified, and included in financial reports.

   - Identify charges that are potentially unallowable costs, if any, to the extent possible.

   - Identify any unusual transactions such as large cash drawdowns or inter-fund transfers of grant funds to ascertain that Federal funds were only used according to applicable requirements.

   - Identify areas where internal controls are weak or do not exist, including adequate separation of duties, adequate procedures, adequate communication, adequate authorizations, adequate documentation and adequate authorizations for transactions.

2. The reviewer should analyze a selection of completed transactions by:

   - Examining payment vouchers, related entries in the accounting records and canceled checks.

   - Examining related obligating documents, i.e., purchase orders, contracts, etc.

   - Reviewing the reports submitted to MDOL for accuracy and tracing the gross financial information reported to the books of account maintained by the grantee.

   - Reviewing the reporting requirements issued by the entity to subgrantees/contractors and reviewing reports submitted by the sub recipients for accuracy and tracing gross financial information reported to the books of account.

   - Tracing the selected transactions step-by-step through the entire accounting process (from obligation to the entries in the books of account and the financial reports).

3. The reviewer should determine whether the sub recipient is complying with WIA financial reporting requirements by:

- Reviewing the reconciliation worksheets for accruals and other supporting source data or documentation used to prepare WIA financial status reports.

- Determining whether appropriate accruals have been used to prepare WIA Financial Status reports if the sub recipient accounts for WIA expenditures using the cash basis of accounting.

CORE ACTIVITY 1
PROGRAM AND GRANT MANAGEMENT SYSTEMS

OBJECTIVE 1.1 Administrative Controls: Administrative Controls are sufficient to ensure grant integrity [29 CFR 97.40; 29 CFR Part 95].

Summary of Indicators

- ☐ **1.11** The organization maintains policies and procedures for core management functions and program operations. **C**
- ☐ **1.12** Written monitoring tools and procedures are used to monitor all elements of the grant Statement of Work (SOW) against performance objectives and compliance with uniform administrative requirements. Monitoring tools and procedures are appropriate for sub recipient monitoring. **E**
- ☐ **1.13** The organization maintains written documentation including monitoring reports, findings, corrective actions, and resolutions for each grant monitored. **E**
- ☐ **1.14** Record retention policies that meet the requirements of applicable Federal laws and regulations are in place and followed. (Appendix A contains additional information on these requirements.) **C**
- ☐ **1.15** The grantee maintains a process for closeout of grants and sub-grants **E**
- ☐ **1.16** The grantee has a written grievance and complaint process that meets the requirements of applicable Federal law and regulations, and follows its process.
- ☐ **1.17** The grantee appropriately reports fraud, waste, abuse, and criminal activity through the U.S. Department of Labor (DOL) incident reporting system. **C**

Indicator 1.11 (C)
☐ The organization maintains policies and procedures for core management functions and program operations.
SESC Guidance: *Interview the primary staff responsible for the development and issuance of policy.*
▪ What determines that a policy is needed? Are there areas in which the need for policy has not been addressed? ▪ What is the process for developing and issuing policies? Is it followed? ▪ Who is on the distribution list? How is the list developed and maintained? ▪ Are all grantee policies currently in force included in the written record? **Sources and Notes:**

Indicator 1.12 (E)
☐ Written monitoring tools and procedures are used to monitor all elements of the grant compliance with uniform administrative requirements. Monitoring tools and procedures are appropriate for sub recipient monitoring.
SESC Guidance: *Review monitoring tools, e.g., protocols, manuals, and general instructions that relate to fiscal monitoring.*
▪ Are the monitoring protocols and instructions clear and adequate to guide the monitoring process? Are the monitoring tools adaptable to all grants, or are there individual tools for each grant and sub recipient? ▪ How does the grantee develop its sub recipient monitoring schedule? Is it followed? ▪ Does there appear to be an assignment of risk to either sub recipients or to grants operated by the grantee? What is the basis for determining high-risk/low-risk levels? ▪ Are all elements of every grant and subgrant monitored on at least an annual basis? **Sources and Notes:**

Indicator 1.13 (E)
☐ The organization maintains written documentation including monitoring reports, findings, corrective actions, and resolutions for each grant monitored.
SESC Guidance: *Review all written documentation related to the grantee's monitoring activities, especially monitoring reports for the past year. Interview monitoring supervisor for clarification of any inconsistencies between the records and the information provided above.*
▪ Are there any discrepancies between the records and the monitoring process and tools that were reviewed above? If so, what accounts for those? ▪ Are corrective actions followed-up? Are there any examples of how monitoring has led to corrective actions that either averted misuse of funds or resulted in improvements to program quality or efficiency? ▪ Is there a pattern in the records that shows: ✓ monitoring procedures were not properly followed or inconsistently applied; or ✓ other weaknesses in monitoring and oversight? **Sources and Notes:**

Indicator 1.14 (C)
☐ Record retention policies that meet the requirements of applicable Federal laws and regulations are in place and followed. (Appendix A contains additional information on these requirements.)
SESC Guidance: *Review the grantee organization records retention and access policy. Interview staff responsible for record retention.*
▪ Is the policy in compliance with applicable Federal laws and regulations? Ask for any clarification needed based on the review of the written policy document. ▪ Does it appear the written records retention and access policy reflect actual grantee organization practice? ▪ Is the physical location of the space used for record retention adequate and accessible? ▪ If records are in an electronic medium, is the medium likely to be outdated in three years and not accessible? **Sources and Notes:**

Indicator 1.15 (E)
☐ The grantee maintains a process for the closeout of grants and sub-grants.
SESC Guidance: *Review the grantee's closeout policies and procedures and verify that closeouts are completed on a timely basis. Interview staff responsible for internal and external closeout activities*

- Does the entity have a written closeout process for sub recipients?
- Does the process address:
  - Reconciliation of obligations or award amount, expenditures, and cash disbursements?
  - Property and supply disposition?
  - Final payments?
  - Prepaid costs?
  - Post close-out adjustments?

Note to reviewer: If not, these may become compliance issues under other objectives or indicators.

- **If not, how do they ensure their compliance with the closeout requirements at 29 CFR 97.50 and/or 95.71?**
- **Does the entity's policy require that all costs are incurred only during the period of performance?**

Sources and Notes:

Indicator 1.16 (E)
☐ The grantee has a written grievance and compliant process that meets the requirements of applicable Federal law and regulations, and follows its process.
SESC Guidance: *Obtain a copy of the recipient's grievance or compliant log(s). Obtain and review a copy of the policy to ensure the following is being met:* • **Is there a written grievance and compliant policy and process in place as described at 20 CFR 667.660(e), if applicable** • **Do these include:** o **Resolution process** o **Hearing policy** o **Timely scheduling or hearings** o **Name of hearing officer** o **Notification process for all parties** o **Communication of results**

- **Have all interested parties been informed of the policies and processes? (Note interested parties include but not limited to participants, staff, one-stop partners and service providers).**
- **Have any grievances been received**
- **Is a log kept of grievances received**
- **If yes, is the log up to date**

Sources and Notes:

Indicator 1.17 (C)

☐ Check to see if any incident reports have been filed by the entity in the last three years. Interview grantee staff to make sure that they are aware of the DOL incident reporting process.

- Do you have a copy of the DOL incident reporting procedures and process
- Have you filed any incident reports
- Were they filed with the DOL Office of Inspector General & ETA
- Have they been resolved? If not, what is the current status?

Incident reporting procedures are included in Training and Employment Guidance Letter 6-84. The hotline number is 1-800-347-3756. Reference new TEGL on incident reporting when issued.

Sources and Notes:

OBJECTIVE 1.2 Personnel: The management structure and staffing of the grantee organization are aligned with the grant SOW and designed to assure responsible general management of the organization [OMB Circular A-87 Attachment A.2.a; OMB Circular A-122 Attachment A.2.a].

Summary of Indicators

- ☐ **1.21** A current written personnel policy (including hiring process and procedures) that meets the requirements of applicable Federal laws and regulations is on file and in force. (Appendix A contains additional information on these requirements.) **C**
- ☐ **1.22** An organizational chart and job descriptions illustrate a staffing structure that is sufficient to perform grant management functions and implement the grant SOW. **E**
- ☐ **1.23** Organizational chart staff positions are filled with individuals that possess the qualifications indicated on job descriptions. **E**
- ☐ **1.24** Salaries are reasonable and comparable to the local markets. **C**

Indicator 1.21 (C)
☐ A current written personnel policy (including hiring process and procedures) that meets the requirements of applicable Federal laws and regulations is on file and in force. (Appendix A contains additional information on these requirements.)
SESC Guidance: *Review the personnel policy of the grantee organization. Interview staff responsible for personnel or human resources for the organization. Review a listing of the grantee organization's job openings for the past 12 months.*
▪ Is the policy in compliance with applicable Federal laws and regulations? (Refer to Appendix A to reference requirements.) ▪ Does it appear the written personnel policy reflects current grantee organization practice? ▪ Do records indicate that hiring procedures were conducted according to the grantee's organization personnel policy? ▪ Do procedures for hiring personnel pose an impediment to meeting grant implementation schedules? ▪ Are there any examples of how hiring delays caused by grantee organization hiring procedures impeded project startup or implementation? **Sources and Notes:**

Indicator 1.22 (E)
☐ An organizational chart and job descriptions illustrate a staffing structure that is sufficient to perform administrative functions and implement the grant SOW.
SESC Guidance: *Review the grantee organizational chart. Interview the executive staff person responsible for the direction and management of the grantee organization.*

- Does the organizational chart present a staffing structure that provides capacity for the key functions such as:

  - ✓ Executive
  - ✓ Fiscal
  - ✓ Management Information Systems
  - ✓ Program Operations

- Are there any gaps evident in the grantee organization management and staffing structure?
- Review job descriptions for one or two primary staff responsible for performing key grant functions. Do the job descriptions delineate responsibilities, duties, and required experience, skills, and qualifications that clearly describe the expectations and requirements of the positions in order to provide grantee organization capacity in these key functional areas?
- If the grant contains specific staffing requirements, review a written description of the current staffing pattern and compare this information with staffing patterns as described in the grant contract. Are the current project staffing patterns in accordance with the grant contracts? If there are deviations, how are they being addressed?

Sources and Notes:

Indicator 1.23 (E)
☐ Organizational chart staff positions are filled with individuals that possess the qualifications indicated on job descriptions.
SESC Guidance: *Review documentation that lists organizational chart positions, qualifications for the positions as delineated on job descriptions, and the qualifications of staff currently employed in each position. Note: you may be required to compile the list from grantee source documentation. You may also choose a sample to document.*

- Are positions currently filled with individuals that possess the qualifications indicated on job descriptions?
- If there are deviations, how are they being addressed?

Sources and Notes:

Indicator 1.24 (C)
☐ Salaries are reasonable and comparable to the local market.
SESC Guidance: *Review the grantee's approved budget against actual personnel expenditures. Interview the executive staff person responsible for the direction and management of the grantee organization.*
▪ Are salaries and fringe benefits reasonable to the extent that they are comparable to that paid for similar work in the same labor market? ▪ Select a sample from the top positions within the organization (and, for formula grantees, the Board) and validate the compensation packages for each. ▪ Ensure that sufficient documentation is available to support salaries and fringe benefits charged to this grant/project (See Objective 3.4) **Sources and Notes:**

OBJECTIVE 1.3 Civil Rights: Recipients of financial assistance from the DOL must comply with applicable Federal Civil Rights laws [Title VI, Section 504 of the Rehabilitation Act of 1973; Title IX, Age Discrimination Act of 1975; Section 188 of the Workforce Investment Act; 29 CFR Part 31; 29 CFR Part 32; 49 CFR Part 25; 29 CFR Part 35; and, 29 CFR Part 37, respectively]. Note: all findings and observations need to be shared with the Civil Rights Center.

Summary of Indicators

☐ **1.31** Policies and procedures developed in accordance with applicable laws and regulations are in place that demonstrate the grantee's commitment to the principles of the laws and regulations. (Appendix A contains additional information on these requirements.) **C**

☐ **1.32** Notices (in languages appropriate to the populations served) are visibly posted to inform staff, project participants, and service providers of the discrimination complaint process, Equal Opportunity (EO), and Section 504 policies. **C**

☐ **1.33** The grantee location and facility, or part of the facility, is physically accessible to and usable by disabled individuals. **C**

Indicator 1.31 (C)
☐ Policies and procedures developed in accordance with applicable laws and regulations are in place that demonstrate the grantee's commitment to the principles of the laws and regulations. (Appendix A contains additional information on these requirements.)

SESC Guidance: *DOL financial assistance recipients must comply with these Federal Civil Rights laws:*

- *Title VI – Civil Rights Act of 1964*
- *Section 504 – Rehabilitation Act*
- *Title IX, Education Amendments Act of 1972*
- *Age Discrimination Act of 1975*
- *Section 188 of the Workforce Investment Act*

Interview the grantee's EO officer and/or staff assigned responsibility for ensuring the organization's compliance with these laws.

- Does the organization have a written discrimination complaint procedure?
- Does the organization use wording required by 29 CFR 37.34 in publications, materials, and brochures?
- Does the organization have a system for periodically monitoring their compliance with the EO law?
- Does the organization prominently post an *EO Is The Law* notice with wording mirroring 29 CFR 37.30?

Sources and Notes:

Indicator 1.32 (C)

☐ Notices (in languages appropriate to the populations served) are visibly posted to inform staff, project participants, and service providers of the discrimination complaint process, EO, and Section 504 policies.

SESC Guidance: *Observe the notices that the grantee organization has posted to inform individuals of their rights related to complaints regarding compliance with EO and Section 504.*

- Does the *EO Is The Law* (see 2.31 bullet) notice provide contact information for the grantee organization's EO officers, an overview of the discrimination complaint process, and how complaints may be filed?
- Are notices prominently posted in a reasonable number of places to include administrative and service delivery areas, and are they available in appropriate formats to individuals with visual impairments?
- If a significant number of the population eligible to be served speaks a language or languages other than English, has the grantee organization taken reasonable steps to provide the notice in the appropriate language(s)?
- Do employment notices, participant recruitment flyers, or other written materials published by the grantee contain a statement providing the required written EO notice?

Sources and Notes:

Indicator 1.33 (C)
☐ The grantee location and facility, or part of the facility, is physically accessible to and usable by disabled individuals.
SESC Guidance: *Do a walk-through of the grantee organization facility.*
▪ Does the location and facility meet physical access requirements? (Refer to Appendix A to reference requirements.) **Sources and Notes:**

OBJECTIVE 1.4 Sustainability: If required, there is a viable plan for sustaining grant activities for those grants whose funds are scheduled to expire [Statement of Work (SOW)]. Note: not applicable to formula grants.

Summary of Indicators

- ☐ **1.41** The organization has identified resources that will support project activities after the grant expires. **E**
- ☐ **1.42** A plan is in place for continuation of services to participants who have not completed the program by the end of the grant period. **E**

Indicator 1.41 (E)
☐ The organization has identified resources that will support project activities after the grant expires.
SESC Guidance: *Interview a number of grantee organization project directors.*
▪ How does project staff work to secure resources to sustain project activities after the expiration of a Federal grant? ▪ Can the staff cite resources that have been identified to support project activities after the grant expires? ▪ Does it seem likely that project activities will continue after the grant expires? **Sources and Notes:**

Indicator 1.42 (E)
☐ A plan is in place for continuation of services to participants who have not completed the program by the end of the grant period.
SESC Guidance: *Interview a number of grantee organization management and operations staff.*
▪ Have the staff describe, in general, how they work to ensure that project participants who are active at the end of a grant period have continued access to services so that participants can achieve their goals? ▪ If the grant is about to end, how will services continue to be available to participants who have not completed the program by the end of the grant period? ▪ Does it seem likely that participants will have continued access to services? **Sources and Notes:**

OBJECTIVE 1.5 Equipment: Grantees who purchase equipment with grant funds have a system in place, including written policies and procedures, to ensure it receives written approval ***prior*** to purchasing equipment. The grantee maintains a property management system in accordance with requirements [29 CFR 95.34 and 29 CFR 97.32].

Summary of Indicators

☐ **1.51** The grantee has a system for the acquisition, management, and disposition of equipment purchased with grant funds. **C**

☐ **1.52** The grantee has sought and received approval ***prior*** to purchasing equipment and has written evidence of prior approval received for items of equipment it has purchased with grant funds. **C**

Indicator 1.51 (C)
☐ The grantee has a system for the acquisition, management, and disposition of equipment purchased with grant funds.
SESC Guidance: *Review the organization's policies and procedures on purchasing, managing, and disposing of equipment.*
▪ Do they have policies and procedures? If not, how do they comply? ▪ Does the organization maintain an inventory of equipment purchased with ETA funds? **Sources and Notes:**

Indicator 1.52 (C)
☐ The grantee has sought and received approval ***prior*** to purchasing equipment and has written evidence of prior approval received for items of equipment it has purchased with grant funds.
SESC Guidance: *Ask the organization how and when it obtains approval for purchasing equipment. Request evidence that the organization has sought and received written approval **prior** to purchasing equipment. Document their responses to your inquiries and the extent to which they are in compliance with this indicator.*
▪ How and when does the organization obtain approval for the purchase of equipment? **Sources and Notes:**

OBJECTIVE 1.6 Procurement: All procurement actions are conducted in a manner that provides for "full and open competition" [29 CFR 97.36; 29 CFR 95.40-48].

Summary of Indicators

☐ **1.61** The organization follows their own procurement procedures which reflect applicable state and local laws and regulations, provided that their procurements conform to applicable Federal laws and standards. **C**

☐ **1.62** The organization maintains a system for the administration of contracts, including appropriate contract or sub recipient clauses. **C**

Indicator 1.61 (C)
☐ The organization follows their own procurement procedures which reflect applicable state and local laws and regulations, provided that their procurements conform to applicable Federal laws standards.
SESC Guidance: *Ask for a copy of procurement rules or other written guidelines that are used in the procurement of both goods and services. Interview staff or members who are familiar with procurement requirements.*
▪ Does the organization have written procurement policies and procedures? ▪ Do the organization's procurement policies and procedures conform to applicable rules and regulations? ▪ How does the organization assure that it conducts procurement activities in a manner to ensure full and open competition? Document your observations of the extent to which the organization appears to use full and open competition to procure its goods and services. **Sources and Notes:**

Indicator 1.62 (C)
☐ The organization maintains a system for the administration of contracts, including appropriate contract or sub recipient clauses.
SESC Guidance: *Interview staff or members who are familiar with sub grant or subcontract processes. Ask for a copy of required contract and/or grant clauses.*
▪ Does the organization have a boilerplate contract or sub recipient format? ▪ Are the required clauses included? **Sources and Notes:**

OBJECTIVE 1.7 Audit and Audit Resolution: The organization has a system in place for an audit of financial activity in accordance with the provisions of OMB Circular A-133, if applicable. The organization maintains an audit and audit resolution process, including debt collection in accordance with Federal grant requirements [29 CFR 99.200; 29 CFR Part 96; 29 CFR 95.20; 29 CFR 97.20].

Summary of Indicators

- ☐ **1.71** The organization maintains a system for audit in compliance with OMB Circular A-133. **C**
- ☐ **1.72** The organization has a system in place to assure sub recipient audits are conducted and resolved. **C**
- ☐ **1.73** The organization is aware of and has met the financial system requirements, including established processes for debt collection. **C**

Indicator 1.81 (C)
☐ If applicable, the organization maintains a system for audit in compliance with OMB Circular A-133.
SESC Guidance: *Organization-wide or program-specific audits must be conducted under the auspices of OMB Circular A-133, which implements the Single Audit Act, when total Federal expenditures are $500,000 or more for an organizational fiscal year ending after December 31, 2003. Interview appropriate staff and document their response. If the organization had an audit done, and questioned cost or findings arose as a result of the audit, obtain a copy of the organization's audit report. If applicable, obtain a written status report of the questioned costs and/or findings*

▪ Is the organization aware of the audit requirements?
▪ What is the latest period for which an audit was conducted?
▪ Was the latest audit organization-wide (A-133) or program-specific?
▪ Obtain a copy of the entity's most recent audit report. Based on the report, answer the following questions:
  o Was the audit completed in a timely manner (no later than nine months after the end of the entity's fiscal year)?
  o Examine the section of the audit report called "Schedule of Findings and Questioned Cost":
  ▪ Are material weaknesses identified
  ▪ Are reportable conditions identified
  ▪ Are Federal award findings identified
  ▪ Are Federal award questioned costs identified

- How long has the organization employed the existing audit firm for the work related to OMB Circular A-133 Audit Report?
- When does the organization expect to resolicit its auditing services? What procurement method will be used to secure the services of a new auditing firm?
- If there are any matters discovered under the audit, does the entity revise its financial status reports to reflect these adjustments?

Sources and Notes:

Indicator 1.82 (C)
☐ The organization has a system in place to assure sub recipient audits are conducted and resolved.
SESC Guidance: *Organization-wide or program-specific audits must be conducted under the auspices of OMB Circular A-133, which implements the Single Audit Act, when total Federal expenditures are $500,000 or more for an organizational fiscal year ending after December 31, 2003. Interview appropriate staff and document their response. Review documentation that would support the answers below (tracking system, audit reports, contract requirements).*

- How does the organization determine the need for audits of sub recipients?
- What processes are followed to resolve sub recipient audit findings?
- Does the organization have a tracking system in place to ensure that all required sub recipient audits are received in a timely manner and resolved in accordance with audit requirements?

Sources and Notes:

Indicator 1.83 (C)
☐ The organization has an established process for debt collection for sub recipients.
SESC Guidance: *Ask the financial staff what procedures are in place to establish a debt, when necessary, and what procedures are in place to recover an established debt.*

- Does the organization have procedures to establish a debt when necessary with a sub recipient, contractor, or another other organization?
- Does the organization have procedures in place to ensure debts are collected?

- Does the organization have policies concerning writing off debts (receivables)?

Sources and Notes:

OBJECTIVE 1.9 Reporting Systems: The organization maintains data collection and reporting systems to fulfill external reporting requirements, both financial and programmatic [29 CFR 95.21(b)(1); 29 CFR 97.20(2)(b)(1); 29 CFR 97.40; 29 CFR 97.41; 29 CFR 95.51; 29 CFR 95.52].

Summary of Indicators

- ☐ **1.91** Federally-required reports are submitted within designated timeframes and are consistent with data in the Management Information System (MIS). **C**
- ☐ **1.92** The MIS produces periodic management reports related to project goals and the work plan. **E**
- ☐ **1.93** The MIS includes a data validation process to ensure accurate input of source data, including source documentation. **E**

Indicator 1.91 (C)
☐ Federally-required reports are submitted within designated timeframes and are consistent with data in the MIS.
SESC Guidance: *Review MIS reports representing a sample of different reporting periods for both program reports and financial reports and compare them with the required corresponding Federal reports applicable to the same grants and time period. Consult with the appropriate staff for clarification as needed. Prior to going on-site, review the submission record of the organization for Quarterly Financial Status Reports (QFSRs) or SF-269s to ensure they are submitting accurate and complete reports electronically in a timely manner.*
▪ Does the organization submit its financial reports electronically (if available)? ▪ Does the organization submit its QFSR or SF-269 in a timely manner? ▪ Do the MIS reports reflect the same data for the time period and grant sampled as it appears on the Federal report? If not, what is the explanation for the variance? ▪ Where MIS reports are not directly linked to the Federal reports, how is data cross-walked to complete Federal reporting requirements? ▪ Summarize your conclusions about any identified weaknesses in the procedures for linking MIS data to the Federal reports. Confirm or correct your understanding of the system and its weaknesses, if any, based on staff interviews. **Sources and Notes:**

Indicator 1.92 (E)
☐ The MIS produces periodic management reports related to project goals and the work plan.
SESC Guidance: *Review interim or periodic project reports produced by the MIS. Interview project administrators for the sampled grants.*
▪ Is there a logical link between the progress report formats and the grant goals? ▪ If there are no MIS reports on interim objectives, are there other means for capturing this information? **Sources and Notes:**

Indicator 1.93 (E)
☐ The MIS includes a data validation process to ensure accurate input of source data, including source documentation.
SESC Guidance: *Review MIS policies and procedures, examples of source data, and relevant performance data.*
▪ Is a data validation process included in the policies and procedures? ▪ Does the staff follow the policies and procedures for editing and checking source data? ▪ Is the source documentation available and consistent with MIS data? ▪ Do you believe that policies and procedures in place are adequate to ensure accuracy? **Sources and Notes:**

OBJECTIVE 1.9A Security of Computer System and Disaster Recovery Plan: To ensure that the LWIB has a plan in place in the event of a disaster and to also ensure the confidential of information of the LWIB when an employee is not at their work area. [29 CFR 95.21(b)(1); 29 CFR 97.20(2)(b)(1); 29 CFR 97.40; 29 CFR 97.41; 29 CFR 95.51; 29 CFR 95.52].

SESC Guidance: *Review Disaster Recovery Plan and Computer System Policy and Procedures*

- Ask about key records (Charter, By-laws, accounting system back-up files, etc. (where are these stored)?
- Does the staff follow the policies and procedures for editing and checking source data?
- Ask about computer security? Does the staff members computer lock after a specific period of time?
- Do you believe that policies and procedures in place are adequate to ensure accuracy?

Sources and Notes:

OBJECTIVE 1.9B Facilities and other capital assets, including State Employment Security Agencies (SESA) real property: Grantees who pay facilities costs and other capital assets costs with grant funds have a system in place to ensure that costs are reasonable and allowable under the cost principles, and are charged to grants based on benefit received; that cost of operations and maintenance and space costs billed to the program are equitable, based upon usage/occupancy; that idle space is not billed to the program; that only depreciation or use allowance costs are charged if capital leases are used, or if property is owned by the entity or related parties. [29 CFR 97.31, 29 CFR 95.32, TEGL 7-04]

Summary of Indicators

☐ **1.9B1** The grantee has a system in place to assure that facilities and space-related costs (e.g. operations and maintenance) are reasonable, allowable and allocable to the grant or grants charged, in accordance with Federal requirements.

☐ **1.9B2** The grantee has a system in place to assure that amounts charged to the grants for capital leases, less than arm length transactions, grantee owned facilities, and capital improvement projects are limited to the cost recovery using the use allowance or depreciation methods (based upon the percentage of program occupancy). **C**

☐ **1.9B3** The grantee has a system for acquisition, management, and disposition of real property purchased with grant funds.

Indicator 1.9B1
☐ The grantee has a system in place to assure that facilities and space-related costs (e.g. operation and maintenance) are reasonable, allowable and allocable to the grant or grants charged, in accordance with Federal requirements.
SESC Guidance: *Review the organization's policies and procedures for charging costs for space and related costs. Related costs can include operations and maintenance, such as groungs upkeep, janitorial, repairs, security, parking, etc. Review charges to the grants for space and facilities.* ▪ *Is the entity charging space rental, lease cost or other related facilities costs to the grant?* ▪ *Do they have policy and procedures? If not, how do they assure compliance?* ▪ *Does the grantee have a system to make a determination of the best option for their facilities (lease versus purchase)?* ▪ *If leasing, did the grantee do an appropriate market survey to determine they are paying a fair market rental rate?* ▪ *Is all space paid for by the program being used strictly for the program?* ▪ *If not, is a fee collected from the other occupants of the property?* ▪ *Is there any rental or lease deposits? If yes, how are the deposits tracked in the books of account? These deposits should be booked as assets. They should be accounted for at closeout and can move from one grant to another where there is continuous funding, or they should be returned to the grant.* ▪ *If there is a lease, is there a provision to terminate the lease if grant funding expires?*
Sources and Notes:

Indicator 1.9B2
☐ The grantee has a system in place to assure that amounts charged to the grants for capital leases, less than arms length transactions, grantee owned facilities, and capital improvement projects are limited to the cost recovery using the use allowance or depreciation methods (based upon the percentage of program occupancy). **C**
SESC Guidance: *Determine the ownership of the building occupied by the grant program. Obtain grantee records of occupancy and all occupancy related costs. Use this information to answer the questions in this section if there is a capital lease, the lessor is a related party, or the grantee owns or is purchasing the building. If the grantee has paid or is paying for capital improvements outside of the lease agreement, you should determine if the grant is being charged appropriately. Review the organization's policies and procedures for charging costs for space and related costs. Related costs can include*

operations and maintenance, such as groungs upkeep, janitorial, repairs, security, parking, etc. Review charges to the grants for space and facilities.

- Are annual facilities costs held to a use allowance not to exceed two percent of the total cost of the property, including interest, or has a depreciation schedule been set up to determine the allowable rental costs based upon the useful life of the facility?
- If the facility has been fully depreciated, are costs limited to operations and maintenance?
- If costs of capital improvements are charged directly to the grant, was prior approval or waiver requested and approved by ME DOL?

Sources and Notes:

Indicator 1.9B3

☐ The grantee has a system for the acquisition, management, and disposition of real property purchased with grant funds.

SESC Guidance: *Review the organization's policies and procedures on purchasing, managing, and disposing of real property.*

- Does the entity have any property of DOL equity?
- Does the entity have a list of their fixed assets?
- Have any of these fixed assets been disposed of? If so, list them
- Has the grantee provided appropriate documentation for transactions that affect DOL equity?
- If revenue is received, is it reflected on the financial report as program income (29 CFR 97.25)?

Sources and Notes:

OBJECTIVE 1.9C The grantee's system for the acquisition, management, and disposition of intangible property (copyrights, inventions, data, patents and software) is sufficient to assure compliance with requirements [29 CFR 97.34; 29 CFR 95.36; OMB Circular A 87).

Indicator 1.9C1
☐ The grantee has a system for the acquisition, management and disposition of intangible property (copyrights, inventions, data, patents and software). **C**
SESC Guidance: *The intangible property needs to be used for the grant or grants from which the funding comes, but the acquisition of the intangible property does not require prior approval. The treatment of intangible property is broadly addressed in 29 CFR Part 35.36 for non-governmental entities; 29 CFR Part 97.34 addresses only the issue of copyrights for governmental entities. Common occurrences of intangible property under our grants are the acquisition or development of software systems, and development of research data.*
▪ Does the grantee have policies and procedures covering intangible property? If not, how do they ensure compliance? ▪ Has the grantee acquired or developed any intangible property with grant funds? ▪ Does the entity have policies and procedures for disposition of property no longer needed for its original purpose comply with the provisions at 29 CFR 95.34 (g) **C** **Sources and Notes:**

CORE ACTIVITY 2

PROGRAM AND GRANT MANAGEMENT SYSTEMS

FINANCIAL MANAGEMENT SYSTEMS

Financial management systems are part of the overall organizational administrative systems that support grant functions or are those activities necessary for the operation of a project but not related to the direct provision of services. The standards for financial management systems are in 29 CFR 95.21 and 29 CFR 97.20.

The purpose of the Core Activity 2 component is to evaluate the grantee's capacity to perform the financial management functions that are required when operating federally funded workforce development grants and assure the proper safeguards are in place to protect grant assets. During this phase of monitoring, you will focus specifically on the financial management systems that relate to budgets, cash management, program income, cost allocation, allowable costs, internal controls, and financial reporting.

OBJECTIVE 2.1 Budget Controls: The organization has a method for tracking planned expenditures that allows it to compare actual expenditures or outlays to planned or estimated expenditures [29 CFR 97.20(b)(4); 29 CFR 95.21(b)(4)].
Summary of Indicators
☐ **2.11** The organization has an approved budget that is compared to actual expenditures on a regular basis (i.e., quarterly) to determine if it needs to modify its budget. **C**

Indicator 2.11 (C)
☐ The organization has an approved budget that is compared to actual expenditures on a regular basis (i.e., quarterly) to determine if it needs to modify its budget.
SESC Guidance: *Interview the staff primarily responsible for modifying the budget and comparing budgeted to actual expenditures. Review the organization's most current approved budget. Cross reference to Objective 5.1 to answer as needed.*
▪ Does the organization have a current approved budget? ▪ How does the staff compare actual costs to budgeted costs to ensure that the program operates within the budget and the organization submits budget modification requests in a timely manner? ▪ Has the organization done a recent planned versus actual cost analysis? ▪ Does the organization have a method for ensuring that obligations do not exceed availability? **Sources and Notes:**

OBJECTIVE 2.2 Cash Management: The organization's cash draws are necessary and reasonable, and the timing and amount of such draws appear to be as close as possible to the actual disbursement of grant funds for the payment of allowable and allocable costs incurred by the grant [29 CFR 97.20(b)(7); 29 CFR 95.22].

Summary of Indicators

☐ **2.21** Grant recipients have a mechanism in place, including policies and procedures, to minimize the time between the transfer of funds from the U.S. Treasury and disbursement of funds to pay allowable costs. The grantee draws cash as close to the time of making disbursements as possible. If applicable, grantees monitor the cash management activities of their sub recipients to ensure that the sub recipients conform to the same standards of timing and amount that apply to the grantees. **C**

Indicator 2.21 (C)
☐ Grant recipients have a mechanism in place, including policies and procedures, to minimize the time between the transfer of funds from the U.S. Treasury and disbursement of funds to pay allowable costs. The grantee draws cash as close to the time of making disbursements as possible. If applicable, grantees monitor the cash management activities of their sub recipients to ensure that the sub recipients conform to the same standards of timing and amount that apply to the grantees.
SESC Guidance: *Review the organization's policies and procedures on cash management. Ask the organization for a summary of their drawdowns and expenditures for one month. Compare their drawdowns for one month to their expenditures for the same month. Document the organization's responses to your inquiries, the extent to which they are in compliance with the indicators, and the results of your review of their expenditures in relation to their draws. Keep in mind that drawdowns should lag behind reported accrued expenditures. If the grantee has a sub recipient, request evidence that the grantee is monitoring the cash management activities of their sub recipients.*
▪ How often does the organization draw down cash and how does it determine when and how much cash to draw down? ▪ Does the organization follow its policies and procedures on cash management? ▪ How is cash requested from the higher tier (Local Areas to ME DOL and then sub-recipient to Local Areas)? What documentation is required for this drawdown request? ▪ Does the organization have a system and procedures in place to address the use of wire transfers? ▪ Does the organization maintain a log of wire transfers? Are wire transfers included as part of the monthly bank reconciliation? **Sources and Notes:**

Indicator 2.22 (C)
☐ Grant recipients have mechanism in place, including policies and procedures to ensure accountability over other cash related activities. **C**
SESC Guidance: *For each of the questions below:* ▪ *Does the organization make use of credit/debt cards?* ▪ *Does the organization have a petty cash fund?* ▪ *Does the organization have policies and procedures to govern these other cash-related activities?* ▪ *Bank Reconciliations* o *Sample items contained in the check register and the cash journal to the bank statement and vice versa* o *Are check numbers that are out of sequence adequately explained and justified* o *Are policies in place to ensure that the bank is notified immediately when there is a change in signatory authority?* o *Are all voided checks accounted for?* o *Is there a procedure to investigate uncleared checks?*
Sources and Notes:

OBJECTIVE 2.3 Program Income: The organization is aware of the requirements for earning, spending, and reporting program income [29 CFR 97.25; 29 CFR 95.24].

Summary of Indicators

☐ **2.31** The organization understands the definition of program income, knows whether it is earning program income, and if it is earning program income, is documenting it correctly and using the cash to provide additional services under the grant prior to drawing grant funds. **C**

Indicator 2.31 (C)
☐ The organization understands the definition of program income, knows whether it is earning program income, and if earning program income, is properly documenting and using it to provide additional services under the grant prior to drawing grant funds.
SESC Guidance: *Review the organization's SF-269 to determine if it is earning, using, and reporting program income. Based on your review, if the organization does not appear to be earning, using, and reporting program income, use the guidance above to determine if the organization is earning program income but has failed to use, document, and report it.*
▪ Does the organization know whether it is earning program income? ▪ Are they aware of the definition of program income as it relates to their activities? ▪ How does the organization ensure that program income earned is being documented correctly and used to provide additional services under the grant? ▪ Do the organization and its sub recipients use cash from program income activities before requesting additional Federal grant funds (cash draw)? **Sources and Notes:**

OBJECTIVE 2.4 Cost Allocation: The organization only allocates costs to the grant to the extent that a benefit was received [OMB Circular A-87 Attachment A; A-122 Attachment A; A-21 Section J].

Summary of Indicators

- ☐ **2.41** There is written evidence, such as a timesheet, that costs being allocated to the grant are being treated consistently over time and within the accounting system, are necessary and reasonable, and are allocated to the grant based on the benefit received. The organization has written policies and procedures for distributing program costs, staff time, and general and administrative costs among programs. **C**
- ☐ **2.42** The organization has written policies and procedures for distributing program costs, staff time, and general and administrative costs among programs. **E**
- ☐ **2.43** The organization has an approved indirect cost rate or cost allocation plan. **C**

Indicator 2.41 (C)
☐ There is written evidence, such as a timesheet, that costs being allocated to the grant are being treated consistently over time and within the accounting system, are necessary and reasonable, and are allocated to the grant based on the benefit received.
SESC Guidance: *Allocability is the extent to which a cost benefits the grant. A common allocation issue arises when personnel compensation costs are charged to a grant. Allocate to the grant only that portion of time that staff spends implementing allowable activities. If the organization receives funds from more than one source or administers more than one grant program, obtain copies of the timesheets of two staff who work on more than one grant to determine how they are allocating their time among the grant programs. Use timesheets to document grantee staff that work on more than one program.*
▪ How does the organization, which receives funds from more than one source or administers more than one grant program *and* has staff that work on more than one grant, allocate their staff's time among the various grant programs they work on? **Sources and Notes:**

Indicator 2.42 (E)
☐ The organization has written policies and procedures for distributing program costs, staff time, and general and administrative costs among programs.
SESC Guidance: *Review the organization's written polices and procedures for distributing program costs, staff time, and general and administrative costs among programs.*
▪ Does the organization maintain written polices and procedures for distributing program costs, staff time, and general and administrative costs among programs? **Sources and Notes:**

Indicator 2.43 (C)
☐ The organization has an approved indirect cost rate or cost allocation plan.
SESC Guidance: *Ask the organization if they have an approved indirect cost rate or a cost allocation plan. Obtain a copy of the organization's indirect cost rate or cost allocation plan and give it to regional fiscal staff as appropriate.*
▪ Does the organization have an approved indirect cost rate or cost allocation plan? **Sources and Notes:**

OBJECTIVE 2.5 Allowable Costs: The organization has a system in place to ensure the program is incurring necessary and reasonable costs and is only charging allowable and allocable costs to the grant [OMB Circular A-87 Attachment A; A-122 Attachment A; A-21 Section C].
Summary of Indicators
☐ **2.51** The organization has a copy of its applicable OMB cost principles circular and is aware of which costs are allowable, allowable under certain conditions, or unallowable. **E**

Indicator 2.51 (E)
☐ The organization has a copy of its applicable OMB cost principles circular and is aware of which costs are allowable, allowable under certain conditions, or unallowable.
SESC Guidance: *Ask program and financial staff which OMB cost circular they use to determine the extent to which a cost charged to the grant is allowable. If applicable, review the letter from the Grant Officer giving the organization approval to purchase equipment listed in their budget.*
▪ How does the organization ensure that the grant is not charged unallowable costs based on applicable cost principles and the provisions of the grant agreement? ▪ If the organization has sub recipients, how do they ensure that their sub recipients are following appropriate cost guidelines and the policies of the awarding agency? Has the organization issued written cost policies to their sub recipients? **Sources and Notes:**

OBJECTIVE 2.6 Internal Controls: Effective control, integrity, and accountability are maintained for all grant and sub recipient cash, personal property, and other grant assets [29 CFR 97.20 (a)(2)(b)(3); 29 CFR 95.21(3)].

Summary of Indicators

☐ **2.61** Grant recipient has adequate safeguards for all grant property and ensures that it is used solely for authorized purposes; has mechanisms in place to prevent unauthorized purchases and disbursements of grant funds; and safeguards its cash and other assets so no one person controls the order, receipt, payment, and reconciliation of an asset. **C**

Indicator 2.61 (C)
☐ Grant recipient adequately safeguards all grant property and ensures that it is used solely for authorized purposes; has mechanisms in place to prevent unauthorized purchases and disbursements of grant funds; and safeguards its cash and other assets so no one person controls the order, receipt, payment, and reconciliation of an asset.
SESC Guidance: *Ask the organization's financial staff for evidence, including written policies and procedures, of separation of duties or other safeguards that they have in place to prevent unauthorized purchases and disbursements of grant assets. Observe the activities of staff to determine the extent to which they have implemented their internal control policies and procedures. Inquire about how the organization manages its assets so no one person has complete control over all aspects of a financial transaction. Document their responses to your inquiries, the extent to which they are in compliance with the indicators, and your observations.*
▪ How does the organization manage and safeguard its cash and protect its other assets so no one person has complete control over all aspects of a financial transaction?(review who is responsible for the Personnel, time distribution accounts, Accounts Payable, Accounts Receivable, Budget, Report Preparation, Cash Receipt/Drawdowns, Reconciliation of accounts and payroll, cash management, check preparation (signing limitation), monitoring/oversight, developing policy). ▪ What safeguards exist to prevent unauthorized purchases or disbursements of funds? **Sources and Notes:**

OBJECTIVE 2.7 Financial Reporting: The organization has an accounting system that allows it to maintain accurate and complete disclosure of the financial results of its grant activities and those of its sub recipients according to the financial reporting requirements of the grant [29 CFR 95.21(b)(1); 29 CFR 97.20(2)(b)(1)].

Summary of Indicators

☐ **2.71** If the organization maintains its books of account on a cash basis, it develops and reports accrual data on the financial status report. **C**

☐ **2.72** If there are sub recipients, the grantee has a system in place to ensure the sub

recipient is reporting the financial results of its grant activities on an accrual basis and in a timely manner. **C**

Indicator 2.71 (C)
☐ If the organization maintains its books of account on a cash basis, it develops and reports accrual data on the financial status report.
SESC Guidance: *If the organization keeps its books on a cash basis, ask the organization for evidence that the financial data included in its quarterly financial status reports to ETA are on an accrual basis. This may be in the form of a spreadsheet or another type of document that will link to the accounting records.*
▪ Does the organization maintain its books of account on a cash or accrual basis? ▪ Is the financial data included in the costs reported to ETA on an accrued basis? What evidence is there to support accruals (spreadsheets, MIS reports, reconciliation, etc.)? **Sources and Notes:**

Indicator 2.72 (C)
☐ If there are sub recipients, the grantee has a system in place to ensure the sub recipient is reporting the financial results of its grant activities on an accrual basis and in a timely manner.
SESC Guidance: *If applicable, determine if the organization is receiving financial data from its sub recipients in a timely manner so that it can include this data in its reports to ETA. Ask for copies of any policies or contract clauses related to sub recipient reporting.*
▪ Is the organization receiving timely data from its sub recipients? ▪ Are there policies or contract clauses concerning financial reporting? **Sources and Notes:**

CROSS REFERENCE OF ADMINISTRATIVE REQUIREMENTS

Requirement	Governmental Organizations	Nonprofit Organizations	Institutions of Higher Education	Commercial Organizations
Audit	29 CFR Part 99	29 CFR Part 99	29 CFR Part 99	29 CFR Part 96
Audit Resolution	29 CFR Part 96	29 CFR Part 96	29 CFR Part 96	29 CFR Part 96
Basic Principles for Allowable Costs	A-87 Attachment A	A-122 Attachment A	A-21 Section C	48 CFR 31.201 through 204
Treatment of Selected Items of Cost	A-87 Attachment B	A-122 Attachment B	A-21 Section J	48 CFR 31.205
Uniform Administrative Requirements	29 CFR Part 97	29 CFR Part 95	29 CFR Part 95	29 CFR Part 95 (grants only)
Lobbying Restrictions	29 CFR Part 93	29 CFR Part 93	29 CFR Part 93	29 CFR Part 93
Suspension and Debarment	29 CFR Part 98 Subparts A-E	29 CFR Part 98 Subparts A-E	29 CFR Part 98 Subparts A-E	29 CFR Part 98 Subparts A-E
Drug-Free Workplace	29 CFR Part 98 Subpart F	29 CFR Part 98 Subpart F	29 CFR Part 98 Subpart F	29 CFR Part 98 Subpart F
Non-Discrimination (Civil Rights)	29 CFR Part 31	29 CFR Part 31	29 CFR Part 31	29 CFR Part 31
Non-Discrimination (Basis of Handicap)	29 CFR Part 32	29 CFR Part 32	29 CFR Part 32	29 CFR Part 32
Age Discrimination of 1975	29 CFR Part 35	29 CFR Part 35	29 CFR Part 35	29 CFR Part 35
EO Requirements (WIA only)	29 CFR Part 37	29 CFR Part 37	29 CFR Part 37	29 CFR Part 37
Title IX – Education Amendments Act of 1972	49 CFR Part 25	49 CFR Part 25	49 CFR Part 25	49 CFR Part 25

Note: Additional requirements may be contained in program regulations related to ETA-funded grant programs.

Electronic versions of the requirements may be downloaded from:

DOL Regulations (29 CFR): **http://www.dol.gov/dol/allcfr/Title_29/toc.htm**
OMB Circulars: **http://www.whitehouse.gov/omb/circulars/**
CFRs: **http://www.gpoaccess.gov/nara/index.html**

SELECTED DEFINITIONS AND ACRONYMS

Accrued expenditures. The charges incurred by the grantee during a given period requiring the provision of funds for (1) goods and other tangible property received; (2) services performed by employees, contractors, subgrantees, subcontractors, and other payees; and (3) other amounts becoming owed (by the grantee) under programs for which no current services or performance is required, such as annuities, insurance claims, and other benefit payments. [29 CFR 95.2] [29 CFR 97.3]

Accrued income. Sum of: (1) earnings during a given period from (i) services performed by the recipient, and (ii) goods and other tangible property delivered to purchasers; and (2) amounts becoming owed to the recipient for which no current services or performance is required by the recipient. [29 CFR 95.2] [29 CFR 97.3]

Acquisition cost of equipment. The net invoice price of the equipment, including the cost of modifications, attachments, accessories, or auxiliary apparatus necessary to make the property usable for the purpose for which it was acquired. Other charges, such as the cost of installation, transportation, taxes, duty or protective in-transit insurance, shall be included or excluded from the unit acquisition cost in accordance with the recipient's regular accounting practices. [29 CFR 95.2] [29 CFR 97.3]

Advance. A payment made by Treasury check or other appropriate payment mechanism to a recipient upon its request either before outlays are made by the recipient or through the use of predetermined payment schedules. [29 CFR 95.2]

Administrative requirements. Those matters common to grants in general, such as financial management, types and frequency of reports, and retention of records. These are distinguished from *programmatic* requirements, which concern matters that can be treated only on a program-by-program or grant-by-grant basis, such as kinds of activities that can be supported by grants under a particular program. These are the uniform administrative requirements codified at OMB Circular A-102 and A-110. OMB Circular A-102 is also referred to as the common rule. [29 CFR 97.3]

Approval or authorization of the awarding or cognizant Federal agency. Documentation evidencing consent prior to incurring a specific cost. If such costs are specifically identified in a Federal award document, approval of the document constitutes approval of the costs. If the costs are covered by a state/local cost allocation plan or an indirect cost proposal, approval of the plan constitutes the approval. [OMB Circular A-87]

Award. Financial assistance that provides support or stimulation to accomplish a public purpose. Awards include grants and other agreements in the form of money or property in lieu of money, by the DOL to an eligible recipient. The term does not include technical assistance, which provides services instead of money; other assistance in the form of loans, loan guarantees, interest subsidies, or insurance; direct payments of any kind to individuals; or contracts that are required to be entered into and administered under procurement laws and regulations. [29 CFR 95.2]

Calendar Year. The period between January 1 and December 31 of any year. For example, calendar year 2001 is January 1, 2001, through December 31, 2001.

Cash contributions. A recipient's cash outlay, including the outlay of money contributed to the recipient by third parties. [29 CFR 95.2] [29 CFR 97.3]

Catalog of Federal Domestic Assistance (CFDA). An online database of all Federal programs available to state and local governments, federally-recognized Indian tribal governments, territories and possessions of the United States, domestic public, quasi-public, and private profit and nonprofit organizations and institutions, specialized groups, and individuals.

CFDA Number. The identifying number a Federal program is assigned in the CFDA. [29 CFR 99.105]

Closeout. Process by which the awarding agency determines that all applicable administrative actions and all required work of the award have been completed by the recipient and the awarding agency. [29 CFR 95.2] [29 CFR 97.3]

Common Rule. The *Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments; Final Rule*, originally issued at 53 FR 8034-8103 (March 11, 1988). Other common rules will be referred to by their specific titles. [OMB Circular A-87]

Contract. A procurement contract under an award or subaward, and a procurement subcontract under a recipient's or sub recipient's contract. [29 CFR 95.2] [29 CFR 97.3]

Cooperative agreement. An award of financial assistance that is used to enter into the same kind of relationship as a grant; and is distinguished from a grant in that it provides for substantial involvement between the Federal agency and the recipient in carrying out the activity contemplated by the award.

Cost. An amount as determined on cash, accrual, or other basis acceptable to the Federal awarding or cognizant agency. It does not include transfers to a general or similar fund. [OMB Circular A-87]

Cost sharing or Matching. The portion of project or program costs not borne by the Federal Government. [29 CFR 95.2] [29 CFR 97.3]

Data Universal Numbering System (DUNS). A unique nine character identification number provided by the commercial company Dun & Bradstreet (D&B).

Date of completion. The date on which all work under an award is completed or the date on the award document, or any supplement or amendment thereto, on which awarding agency sponsorship ends. [29 CFR 95.2]

Disallowed costs. Charges to an award that the awarding agency determines to be unallowable, in accordance with the applicable Federal cost principles or other terms and conditions contained in the award. [29 CFR 95.2]

Discretionary award. A grant or cooperative agreement for which the Federal awarding agency generally may select the recipient among all eligible recipients, may decide to make or not make an award based on the programmatic, technical, or scientific content of an application, and can decide the amount of funding to be awarded.

Equipment. Equipment is defined as tangible, nonexpendable personal property having a useful life of more than one year and an acquisition cost of $5,000 or more per unit, including all costs related to the property's final intended use. See Acquisition Cost of Equipment. Grantees may use their own definition of "equipment" provided it meets these minimum standards. [29 CFR 95.2] [29 CFR 97.3]

Federal financial assistance. Assistance that non-Federal entities receive or administer in the form of grants, loans, loan guarantees, property (including donated surplus property), cooperative agreements,

interest, subsidies, insurance, food commodities, direct appropriations, and other assistance but does not include amounts received as reimbursement for services rendered to individuals described in 29 CFR 99.205 (h) and (i). [29 CFR 99.105]

Federal Fiscal Year (FY). The period between October 1 of a calendar year and September 30 of the following calendar year, with the subsequent year as the FY designator. For example, Fiscal Year 2002 or FY 2002 is the period between October 1, 2001, and September 30, 2002.

Funding period. The period of time when Federal funding is available for obligation by the recipient. [29 CFR 95.2]

GAAP. Generally Accepted Accounting Principles. Accounting rules and procedures established by authoritative bodies or conventions that have evolved through custom and common usage. [OMB Circular A-133] Issued by the American Institute of Certified Public Accountants (AICPA). [29 CFR 99.105]

Government. A state, local, or a federally recognized Indian tribal government. [29 CFR 97.3]

Grant. An award of financial assistance the principle purpose of which is to transfer a thing of value from a Federal agency to a recipient to carry out a public purpose of support or stimulation authorized by a law of the United States. A grant is distinguished from a contract, which is used to acquire property or services for the Federal government's direct benefit or use. [29 CFR 97.3]

Internal control pertaining to the compliance requirements for Federal programs (internal control over Federal programs). A process, affected by an entity's management and other personnel, designed to provide reasonable assurance regarding the achievement of the following objectives for Federal programs. (1) Transactions are properly recorded and accounted for to (a) permit the preparation of reliable financial statements and Federal reports; (b) maintain accountability over assets; and (c) demonstrate compliance with laws, regulations, and other compliance requirements. (2) Transactions are executed in compliance with (a) laws, regulations, and the provisions of contracts or grant agreements that could have a direct and material effect on a Federal program; and (b) any other laws and regulations that are identified in the compliance supplement. (3) Funds, property, and other assets are safeguarded against loss from unauthorized use or disposition. [29 CFR 99.105]

Local government. A local unit of government, including specifically a county, municipality, city, town, township, local public authority, school district, special district, intra-state district, council of governments (whether or not incorporated as nonprofit corporation under state law), any other regional or interstate entity, or any agency or instrumentality of local government. [29 CFR 97.3]

Mandatory award. A grant or cooperative agreement awarded under a program where the authorizing statute requires the head of the agency or designee to make an award to each eligible under the conditions and in the amount (or based on a formula) specified in the statute.

Obligations. The amounts of orders placed, contracts and subgrants awarded, goods and services received, and similar transactions during a given period that will require payment by the grantee during the same or a future period. [29 CFR 95.2] [29 CFR 97.3]

Organization. A company, state, local, or tribal government, academia or research institution, not-for-profit entity, or any other type of institution.

Outlays (expenditures). Charges made to the project or program. They may be reported on a cash or accrual basis. For reports prepared on a cash basis, outlays are the sum of actual cash disbursement for direct charges for goods and services, the amount of indirect expense incurred, the value of in-kind contributions applied, and the amount of cash advances and payments made to contractors and subgrantees. For reports prepared on an accrued expenditure basis, outlays are the sum of actual cash disbursements, the amount of indirect expense incurred, the value of in-kind contributions applied, and the net increase (or decrease) in the amounts owed by the grantee for goods and other property received, for services performed by employees, contractors, subgrantees, subcontractors, and other payees, and other amounts becoming owed under programs for which no current services or performance are required, such as annuities, insurance claims, and other benefit payments. [29 CFR 95.2] [29 CFR 97.3]
NOTE: ETA requires outlays (expenditures) to be reported on an accrual basis.

Pass-through entity. A non-Federal entity that provides a Federal award to a sub recipient to carry out a Federal program. [29 CFR 99.105]

Personal property. Property of any kind except real property. It may be tangible, having physical existence, or intangible, having no physical existence, such as copyrights, patents, or securities. [29 CFR 95.2]

Prior approval. Written approval by an authorized agency official evidencing prior consent. [29 CFR 95.2] [29 CFR 97.3]

Program. A coordinated set of services to individuals.

Program income. Program income is income received by a recipient that was directly generated by a grant supported activity, or earned only as a result of the grant agreement ***during the grant period***. It includes fees for services performed, income from the use or rental of personal property acquired with grant funds, income from the sale of items fabricated under the grant, interest income for WIA Title I programs only, and revenues in excess of expenditures for governmental and nonprofit agencies. ***Program income does not include*** refunds, rebates, credits, or discounts, proceeds from the sale of personal property, income from royalties and license fees for copyrights, patents, and inventions, unless such income is specifically identified in the grant agreement as program income. Program income also *does not include* income earned after the grant period has ended, contributions and donations, profits of commercial organizations, and funds used as a match. [29 CFR 95.2]

Program Year (PY). The period between July 1 of a calendar year and June 30 of the following calendar year. The PY designator is the year the period begins. For example, Program Year 2001 or PY 2001 is the period between July 1, 2001, and June 30, 2002.

Project. All activities incorporated in a grant statement of work (SOW), which may include a program as well as the administrative and accountability elements as defined in the SOW.

Project costs. All allowable costs, as set forth in the applicable Federal cost principles, incurred by a recipient and the value of the contributions made by third parties in accomplishing the objectives of the award during the **project period**. [29 CFR 95.2]

Project period. The period established in the award document during which awarding agency sponsorship begins and ends. [29 CFR 95.2]

Questioned cost. A cost that is questioned by the auditor because of an audit finding: (1) which resulted from a possible violation of a provision of a law, regulation, contract, grant, cooperative agreement, or

other agreement or document governing the use of Federal funds, including funds used to match Federal funds; (2) where the costs, at the time of the audit, are not supported by adequate documentation; or (3) where the costs incurred appear unreasonable and do not reflect the actions a prudent person would take in the circumstances. [29 CFR 99.105]

Real property. Land, including land improvements, structures and appurtenances thereto, but excludes movable machinery and equipment. [29 CFR 95.2] [29 CFR 97.3]

Recipient. A non-Federal entity that expends Federal awards received directly from a Federal awarding agency to carry out a Federal program. [29 CFR 99.105]

Single audit. An audit which includes both the entity's financial statements and the Federal awards as described in 29 CFR 99.500. [29 CFR 99.105]

State. Any of several states of the United States, the District of Columbia, the Commonwealth of Puerto Rico, any territory or possession of the United States, or any agency or instrumentality of a state exclusive of local governments. [29 CFR 97.3]

Subaward (Subgrant). An award of financial assistance in the form of money, or property in lieu of money, made under an award by a recipient to an eligible sub recipient or by a sub recipient to a lower tier sub recipient. The term includes financial assistance when provided by any legal agreement, even if the agreement is called a contract, but does not include procurement of goods and services nor does it include any form of assistance which is excluded from the definition of "award." [29 CFR 95.2] [29 CFR 97.3]

Sub recipient. A non-Federal entity that expends Federal awards received from a pass-through entity to carry out a Federal program, but does not include an individual that is a beneficiary of such a program. A sub recipient may also be a recipient of other Federal awards directly from a Federal awarding agency. Guidance on distinguishing between a sub recipient and a vendor is provided in 29 CFR 99.210. [29 CFR 99.105]

Supplies. All tangible personal property, equipment. Title to supplies, or other expendable property, and the value of goods and services directly benefiting and specifically identifiable to the project or program. [29 CFR 95.2] [29 CFR 97.3]

Suspension. A post-award action by the awarding agency that temporarily withdraws the agency's financial assistance sponsorship under an award, pending corrective action by the recipient or pending a decision to terminate the award. [29 CFR 95.2] [29 CFR 97.3]

Termination. The cancellation of awarding agency sponsorship, in whole or in part, under an agreement at any time prior to the date of completion. [29 CFR 95.2] [29 CFR 97.3]

Third-party in-kind contributions. The value of non-cash contributions provided by non-Federal third parties. Third-party in-kind contributions may be in the form of real property, equipment, supplies, or other expendable property, and the value of goods and services directly benefiting and specifically identifiable to the project or program. [29 CFR 95.2] [29 CFR 97.3]

Unliquidated obligations. For reports prepared on a cash basis, the amount of obligations incurred by the grantee that has not been paid. For reports prepared on an accrued expenditure basis, they represent the amount of obligations incurred by the grantee for which an outlay has not been recorded. [29 CFR 95.2] [29 CFR 97.3]

Unobligated balance. The portion of the funds authorized by the Federal agency that has not been obligated by the grantee and is determined by deducting the cumulative obligations from the cumulative funds authorized. [29 CFR 95.2] [29 CFR 97.3]

Vendor. A dealer, distributor, merchant, or other seller providing goods or services that are required for the conduct of a Federal program. These goods and services may be for an organization's own use or for the use of beneficiaries of the Federal program. Additional guidance on distinguishing between a sub recipient and a vendor is provided in 29 CFR 99.210. [29 CFR 99.105]

Acronyms

DOL	Department of Labor
ETA	Employment and Training Administration
EDP	Employment Development Plan
EO	Equal Opportunity
SESC	Security & Employment Service Center
GEMS	Grants e-Management System
LMI	Labor Market Information
LWIB	Local Workforce Investment Board
MIS	Management Information System
MOU	Memorandum of Understanding
OMB	Office of Management and Budget
QFSR	Quarterly Financial Status Report
SOW	Statement of Work

SUMMARY OF COST ITEMS

KEY

NT = Not treated in circular
A = Allowable
AC = Allowable with conditions
AP = Allowable with prior approval of either the Grant Officer or Governor
U = Unallowable
A/U = Some categories within the particular activity are allowable, while some are not. Please consult respective circular for precise explanations.

Note: Some of the costs on this chart are allowable under the circulars and prohibited under the Workforce Investment Act or other program-specific regulations. You should refer to the program-specific regulations if you have any questions on allowability of a particular cost. This chart is for reference only.

In addition, when reviewing the provisions related to selected items of cost in the OMB circulars, the cost principles applied in establishing the allowability of certain items of cost apply whether the cost is treated as a direct or indirect cost. Failure to address a particular item of cost is not intended to imply that it is unallowable. Rather, the determination of allowability in each case should be based on the treatment or principles provided for similar or related costs. Note also that, in some instances, different cost items may be similarly named, and there may be some overlap in the cost items treated by the different circulars. Again, this chart is for reference only.

	Cost Item	Circular A-21	Circular A-122	Circular A-87	48 CFR Part 31
1	Advertising/public relations	AC/U	AC/U	AC/U	AC
2	Advisory councils	A	A	A	NT
3	Alcoholic beverages	U	U	U	U
4	Alumni/ae activities	U	NT	NT	NT
5	Asset valuations resulting from business combinations	NT	NT	NT	A
6	Audit services	A	A	A	NT
7	Bad debts	U	U	U	U
8	Bonding costs	A/AC	A/AC	A/AC	A/U
9	Commencement and convocation costs	U	NT	NT	NT
10	Communication costs	A	A	A	NT
11	Compensation for personal services	A/U	A/U	AC/U	A/U
12	Contingency provisions	U	U	U	A/U

	Cost Item	Circular A-21	Circular A-122	Circular A-87	48 CFR Part 31
13	Deans of faculty and graduate schools	A	NT	NT	NT
14	Defense and prosecution of criminal and civil proceedings, claims, appeals, and patent infringement	AC/U	AC/U	A/U	U
15	Deferred research and development costs	NT	NT	NT	AC/U
16	Depreciation and use allowances	AC	AC	AC	AC
17	Donations and contributions	U	U	U	U
18	Economic planning costs	NT	NT	NT	A/U
19	Employee morale, health, and welfare costs and credits	A/AC	A	A	A/U
20	Entertainment costs	U	U	U	U
21	Equipment and other capital expenditures	AP/U	AP/U	AP/U	AP
22	Fines and penalties	AP/AC/U	AP/AC/U	AP/AC/U	AC/U
23	Fund-raising and investment management costs	U/A	U	U	U
24	Gains and losses on depreciable assets (See Item 72)	AC	AC	AC	A
25	General government expenses	NT	NT	U	NT
26	Goods/services for personal use	U	U	U	NT
27	Goodwill	NT	NT	NT	U
28	Housing and personal living expenses	U	AP/U	NT	NT
29	Idle facilities and capacity	AC/U	AC/U	AC/U	AC/U
30	Independent research and development	NT	NT	NT	AC
31	Insurance and indemnification	AC/U	AC/U	AC/U	A
32	Interest	A/AC/U	A/AC/U	A/AC/U	U
33	Labor relations costs	A	A	NT	AC/U
34	Lobbying (including Executive Lobbying)	U	U	U	U
35	Losses on other sponsored agreements/contracts	U	U	U	U
36	Maintenance and repair costs	A	A	AC	A
37	Manufacturing and repair costs	NT	NT	NT	A
38	Manufacturing and product engineering costs	NT	NT	NT	A

	Cost Item	Circular A-21	Circular A-122	Circular A-87	48 CFR Part 31
39	Material costs	A	A	A	A
40	Meetings and conferences	A	A	A	See Item 2
41	Memberships, subscriptions, and professional activity costs	A/U	A/AP/U	A/AP/U	NT
42	Organization costs	NT	U/AP	NT	U
43	Other business expense	NT	NT	NT	A
44	Overtime, extra-pay shift, and multi-shift premiums	NT	AP	NT	See Item 14
45	Page charges in professional journals	A	A	AC	NT
46	Participant support costs	NT	AP	NT	NT
47	Patent costs	A/U	A/U	A/U	A/U
48	Plant and homeland security costs	A	A	A	A
49	Pre-award/Pre-agreement	U/AP	AC/AP	AC/AP	AC
50	Professional services costs	AC	AC	AC	A
51	Proposal costs	AC	NT	A	AP
52	Publication and printing costs	A	A	A	NT
53	Rearrangement and alteration costs	A	A	A	NT
54	Reconversion costs	A	A	A	AC/U
55	Recruiting costs	A	A	A	A
56	Relocation costs	NT	AC	NT	A/U
57	Rental costs of buildings and equipment	AC	AC	AC	AC
58	Royalties and other costs for use of patents	AC	AC	AC	A
59	Scholarships and student aid costs	A	NT	NT	NT
60	Selling and marketing	AC/U	U	U	A/U
61	Service and warranty costs	NT	NT	NT	A
62	Severance pay	NT	AC/U	AC	AC
63	Special tooling and special test equipment costs	NT	NT	NT	A
64	Specialized service facilities	AC	AC	NT	NT
65	Student activity costs	U	NT	NT	NT
66	Substantial relocation of Federal programs (Related to gains and losses in A-87)	NT	NT	AC	See Item 22
67	Taxes	AC	AC	AC	AC
68	Termination costs	AC	AC	AC	A/U

	Cost Item	Circular A-21	Circular A-122	Circular A-87	48 CFR Part 31
69	Training and education costs	A	AC/AP/U	A	AC
70	Transportation	A	A	NT	AC
71	Travel costs	AC	AC	AC	AC
72	Trustees	AC	AC	NT	NT
73	Under recovery of costs under Federal agreements	NT	NT	NT	U

Table of Federal Requirements		
Source of the Requirement	Subpart(s)	Requirement(s)
Office of Management and Budget (OMB) Uniform Administrative Requirements- 29 CFR	**Part 95 Non-governmental Organization** **Part 97 State, Local & Indian Tribal Government**	These provisions outline the requirements for financial and property management, procurement, reporting and other administrative grant management requirements.
29 CFR	**Part 34** **Part 36** **Part 37** **Part 93** **Part 96**	Non-discrimination on the basis of handicap in programs or activities conducted by the Department of Labor (DOL). Non-discrimination on the basis of sex in education programs or activities receiving Federal financial assistance. Implementation of the non-discrimination and Equal Opportunity Provisions of the Workforce Protection Act of 1998. New restrictions on lobbying. Audit requirement for grants contracts and other agreements.
	Part 98	Government's wide debarment and suspension requirements.
OMB Circular A-133	**Part 99**	Audits of states, local governments, and non-profit organizations.
PLUS: the requirements set forth in the Congressional Act and U.S Department of Labor Regulations for each of the DOL-funded programs and additional guidance issued by DOL in Employment and Training Guidance Letters; OMB Cost Principle for States and the other cost principles for the specific entities with which the state is doing business.		

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PLUS: the requirements set forth in the Congressional Act and U.S Department of Labor Regulations for each of the DOL-funded programs and additional guidance issued by DOL in Employment and Training Guidance Letters; OMB Cost Principle for States and the other cost principles for the specific entities with which the state is doing business.		

R2.1 Background for Administrative Controls
Purpose: to aid the reviewer in understanding grantees' financial management systems.

FINANCIAL MANAGEMENT SYSTEMS
In approaching the overreaching financial management systems of the state, subs, and other grantees, reviewers must determine if the practices, policies, and direction of the state and its subs and other direct grantees addresses the following:

Table of Federal Requirements		
Sources of Requirement	**Subpart(s)**	**Requirement(s)**
Office of Management and Budget (OMB) Uniform Administrative Requirements – 29 CFR	Part 95 Non-governmental Organizations Part 97 State, Local & Indian Tribal Government	These provisions outline the requirements for financial and property management, procurement, reporting and other administrative grant management requirements.
29 CFR	Part 34 Part 36 Part 37 Part 93 Part 96	Non-discrimination on the basis of handicap in programs or activities conducted by the Department of Labor (DOL). Non-discrimination on the basis of sex in education programs or activities receiving Federal financial assistance. Implementation of the non-discrimination and Equal Opportunity Provisions of the Workforce Protection Act of 1998. New Restrictions on lobbying. Audit requirements for grant contracts and other agreements.
	Part 98	Government wide debarment and suspension requirements
OMB Circular A – 133 29CFR	Part 99	Audits of states, local governments, and non-profit organizations.
PLUS: the requirements set forth in the Congressional Acts and U.S. Department of Labor Regulations for each of the DOL-funded programs and additional guidance issued by DOL in Employment and Training Guidance Letters; OMB Cost Principle for States and the other cost principles for the specific entities with which the state is doing business.		

R2.6 Background for property
Purpose: to assist the reviewer in understanding the distinction among various types of property that a grantee may have purchased and purchasing requirements that apply to particular types.

Types of Property				
	Real	**Personal**		
Definitions	Land, including land improvements, structures, and appurtenances [1]thereto, but excluding moveable machinery and equipment (not allowable under the WIA program and Earmark grants)	**Tangible** **Nonexpendable (Equipment)** **Useful life of more than 1 year and a unit cost of $5,000 or more**	**Expendable (supplies)** **All else**	**Intangible** Without physical existence: patents, trademarks, or copyrights that are produced or acquired under the grant.
Acquisition Approval	Requires approval of the Grant Officer unless delegated	Requires approval of the Grant Officer unless delegated	No prior Approval	No prior approval
Ownership	Entity that acquired it	Entity that acquired it	Entity that acquired it	Entity that developed the product *

*The Federal government always reserves the right to use or make available intangible products developed with its funding.
Note: Debt instruments and inventions are classified as intangible property under OMB Circular A-110 and 29 CFR Part 95, and are executed from the supplies category.

The following requirements are described in the DOL grant management regulations:

[1] Appurtenance, General definition – An adjunct; an accessory; something added to another, more important thing.
Legal definition – An incidental right attached to a principal property right for purpose such as passage of title, conveyance, or inheritance.

- 29 CFR Part 97 addresses property requirements for governmental organizations, as follows:
  - ✓ Real Property 97.31
  - ✓ Equipment 97.32
  - ✓ Supplies 97.33
  - ✓ Copyrights 97.34
- 29 CFR Part 95 addresses property requirements for higher education institutions, hospitals and other non-profit organization, as follows:
  - ✓ Purpose of Property Standards 95.30
  - ✓ Insurance Coverage 95.31
  - ✓ Real Property 95.32
  - ✓ Equipment 95.34
  - ✓ Supplies and Other Expendable Property 95.35
  - ✓ Intangible Property 95.36
  - ✓ Property Trust Relationship 95.37

R2.7 Background for Contract Provisions
Purpose: to aid the reviewer in understanding the requirement for agreements and subagreements. This information is directly quoted from applicable regulations.
Contract Provisions 29CFR Part 97.36 (i) 1-13
(i)Contract Provisions. A grantee's and subgrantee's contracts must contain provisions in paragraph (i) of this section. Federal agencies are permitted to require changes, remedies, changed conditions, access and records retention, suspension of work, and other clauses approved by the Office of Federal Procurement Policy.

(1) Administrative, contractual, or legal remedies in instance where contractors violate or breach contract terms, and provide for such sanctions and penalties as may be appropriate. (Contracts more than the simplified acquisition threshold)

(2) Termination for cause and for convenience by the grantee or subgrantee including the manner by which it will be effected and the basis for settlement. (All contracts in excess of $10,000)

(3) Compliance with Executive Order 11246 of September 24, 1965m entitled " Equal Employment Opportunity," as amended by Executive Order 11375 of October 13, 1967, and as supplemented in Department of Labor regulations (41 CFR chapter 60). (All construction contacts awarded in excess of $10,000 by grantees and their contractors or subgrantees)

(4) Compliance with the Copeland Anti-Kickback Act (18 U.S.C. 874) as supplemented in Department of Labor regulations (29 CFR Part 3). (All contracts and subgrants for construction or repair)

(5) Compliance with the Davis-Bacon Act (40 U.S.C. 276a-7) as supplemented by Department of Labor regulations (29 CFR Part 5). (Construction contracts in excess of $2000 awarded by grantees and subgrantees when required by Federal grant program legislation)

(6) Compliance with Sections 103 and 107 of the Contract Work Hours and Safety Standards (Construction contracts awarded by grantees and subgrantees in excess of $2000, and n excess of $2500 for other contracts which involve the employment of mechanics or laborers)

(7) Notice of awarding agency requirements and regulations pertaining to reporting.

(8) Notice of awarding agency requirements and regulations pertaining to patent rights with respect to any discovery or invention which arises or is developed in the course of or under such contract.

(9) Awarding agency requirements and regulations pertaining to copyrights and rights in data.

(10) Access by the grantee, the subgrantee, the Federal grantor agency, the Comptroller General of the United States, or any of their duly authorized representatives to any books, documents, papers, and records of the contractor which are directly pertinent to that specific contract for the purpose of making audit, examination, excerpts, and transcriptions.

(11) Retention of all required records for three years after grantees or subgrantees make final payments and all other pending matters are closed.

(12) Compliance with all applicable standards, orders, or requirements issued under section 306 of the Clean Air Act (42 U.S.C. 1857(h)), section 508 of the Clean

Water Act (33 U.S.C 1368), Executive Order 11738, and Environmental Protection Agency (40 CFR part 15). (Contracts, subcontracts of amount in excess of $100,000)

(13) Mandatory standards and policies relating to energy efficiency which are contained in the state energy conservation plan issued in compliance with the Energy Policy and Conservation Act (Pub. L. 94-163, 89 Stat 871).

Retention and Access Requirement for Records 29 CFR Part 97.42

(a) Applicability. (1) This section applies to all financial and programmatic records, supporting documents, statistical records, and other records of grantees or subgrantees which are:

(i) Required to be maintained by the terms of this part, program regulations or the grant agreement, or

(ii) Otherwise reasonably considered as pertinent to program regulations or the grant agreement.

(2) This section does not apply to records maintained by contractors or subcontractors. For a requirement to place a provision concerning records in certain kinds of contracts, see Sec. 97.36(i) (10);

(b) Length of retention period. (1) Except as otherwise provided, records must be retained for three years from the starting date specified in paragraph (c) of this section.

(2) If any litigation, claim, negotiation, audit or other action involving the records has been started before the expiration of the 3-year period, the records must be retained until completion of the action and resolution of all issues which arise from it, or until the end of the regular 3-year period, whichever is later.

(3) To avoid duplicate recordkeeping, awarding agencies may take special arrangements with grantees and subgrantees to retain any record which is continuously needed for joint use. The awarding agency will request transfer of records to its custody when it determines that the records possess long-term retention value. When the records are transferred to or maintained by the Federal Agency, the 3-year retention requirement is not applicable to the grantee or subgrantee.

(c) Starting date of retention period - - (1) General. When grant support is continued or renewed at annual or other intervals, the retention period for the records of each funding period starts on the day the grantee or subgrantee submits to the awarding agency its single or last expenditure report for that period. However, if grant support is continued or renewed quarterly, the retention period for each year's starts on the day the grantee submits its expenditure report for the last quarter of the Federal fiscal year. In all other cases, the retention period starts on the day the report would have been due.

(2) Real property and equipment records. The retention period for real property and equipment records starts from the date of the disposition or replacement or transfer at the direction of the awarding agency

(3) Records for income transactions after grant or subgrant support. In some cases grantees must report income after the period of grant support. Where there is such a requirement, the retention period for the records pertaining to the earning of income starts from the end of the grantee's fiscal year in which the income is earned.

(4) Indirect cost rate proposals, cost allocations plans, etc. this paragraph applies to the following types of documents, and their supporting records: indirect cost rate computations or proposal, cost allocation plans, and any similar accounting computations

of the rate at which a particular group of costs is chargeable (such as computer usage chargeback rates or composite fringe benefit rates).

(i) If submitted for negotiation. If the proposal, plan, or other computation is required to be submitted to the Federal Government (or to the grantee) to form the basis for negotiation of the rate, then the 3-year retention period for its supporting record starts from the date of such submission.

(ii) If not submitted for negotiation. If the proposal, plan, or other computation is not required to be submitted to the Federal Government (or to the grantee) for negotiation purposes, then the 3-year retention period for the proposal, plan, or computation and its supporting record starts from end of the fiscal year (or other accounting period) covered by the proposal, plan, or other computation.

(d) Substitution of microfilm. Copies made by microfilm, photocopying, or similar methods may be substituted for the original records.

(e) Access to records – (1) Records of grantees and subgrantees. The awarding agencies and the Comptroller General of the United States, or nay of their authorized representatives, shall have the right of access to any pertinent books, documents, papers, or other records of grantees and subgrantees which are pertinent to the grant, in order to make audits, examinations, excerpts, and transcripts.

(2) Expiration of right of access. The right of access in this section must not be limited to the required retention period but shall last as long as the records are retained.

(f) Restrictions on public access. The Federal Freedom of Information Act (5 U.S.C. 552) does not apply to records, unless required by Federal, state, or local law, grantees and subgrantees are not required to permit public access to their records.

Institutions of Higher Education, Hospitals and other Non-profit Organizations, and with Commercial Organizations, Foreign Governments, Organization under the Jurisdiction of Foreign Governments, and International Organizations.

Contract Provisions 29 CFR Part 95.48

The recipient shall include, in addition to provisions to define a sound and complete agreement, the following provisions in all contracts. The following provisions shall also be applied to subcontracts:

(a) Contracts in excess of the small purchase threshold shall contain contractual provisions or conditions that allow for administrative, contractual, or legal remedies in instances in which a contractor violates or breaches the contracts terms, and provide for such remedial actions as may be appropriate.

(b) All contracts in excess of the small purchase threshold shall contain suitable provisions for termination by the recipient, including the manner by which termination shall be effected and the basis for settlement. In addition, such contracts shall describe conditions under which the contract may be terminated for defaults as well as conditions where the contracts may be terminated for defaults as well as conditions where the contract may be terminated because of circumstances beyond the control of the contractor.

(c) Except as otherwise required by statute, an award that requires the contracting (or subcontracting) for construction or facility improvements shall provide for the recipient to follow its own requirements relating to bid guarantees, performance bonds, and payments bonds unless the construction contract or subcontract exceeds $100,000. For those contracts or subcontracts exceeding $100,000, DOL may accept the bonding policy and requirement of the recipient, provided DOL has made a determination that the Federal Government's interest is adequately protected. If such a determination has not been made, the minimum requirements shall be as follows.

(1) A bid guarantee from each bidder equivalent to five percent of the bid price. The bid guarantee shall consist of a firm commitment such as a bid bond, certified check, or other negotiable instruments accompanying a bid as assurance that the bidder shall, upon acceptance of his bid, execute such contractual documents as may be required within the time specified.

(2) A performance bond on the part of the contractor for 100 percent of the contract price. A performance bond is one executed in connection with a contract to secure fulfillment of all the contractor's obligations under such contract.

(3) A payment bond on the part of the contractor for 100 percent of the contract price. A payment bond is one executed in connection with a contract to assure payment as required by stature of all persons supplying labor and material in the execution of the work provided for the contract.

(4) Where bonds are required in the situations described herein, the bonds shall be obtained from companies holding certificates of authority as acceptable sureties pursuant to 31 CFR part 223, Surety Companies Doing Business with the United States.

(d) All negotiated contracts (except those for less than the small purchase threshold) awarded by recipients shall include a provision to the effect that the recipient, DOL, the Comptroller General of the United States, or any of their duly authorized representatives shall have access to any books, documents, papers and records of the contractor which are directly pertinent to a specific program for the purpose of making audits, examinations, excerpts and transcriptions.

(e) All contracts, including small purchases, awarded by recipients and their contractors shall contain the procurement provisions of Appendix A to this part, as applicable.

Retention and Access Requirements for Records 29 CFR Part 95.53

(a) This section sets forth requirements for record retention and access to records for awards to recipients. DOL shall not impose any other retention or access requirements upon recipients.

(b) Financial records, supporting documents, statistical records, and all other records pertinent to an award shall be retained for a period of three years from the date of submission of the final expenditure report or, for awards that are renewed quarterly or annually, from the date of the submission of the quarterly or annual financial report, as authorized by DOL. The only exceptions are the following:

(1) If any litigation, claim, or audit is started before the expiration of the 3-year period, the records shall be retained until all litigation, claims or audit findings involving the records have been resolved and final action taken.

(2) Records for real property and equipment acquired with Federal funds shall be retained for 3 years after final disposition.

(3) When records are transferred to or maintained by DOL, the 3-year retention requirement is not applicable to the recipient.

(4) Indirect cost rate proposals, cost allocations plans, etc., as specified in paragraph (g) of this section.

(c) Copies of original record may be substituted for the original records if authorized by DOL.

(d) DOL shall request transfer of certain records to its custody from recipients when it determines that the records possess long-term retention value. However, in order to avoid duplicate recordkeeping, DOL may make arrangements for recipients to retain any records that are continuously needed for joint use.

(e) The Federal grantor awarding agency, the Inspector General, The Comptroller General of the United States, or any of their duly authorized representatives have the right of timely and unrestricted access to any books, documents, papers, other records of recipients that are pertinent to the awards, in order to make audits, examinations, excerpts, transcripts and copies of such documents. This right also includes timely and reasonable access to a recipient's personnel for the purpose of interview and discussion related to such documents. The rights of access in this paragraph are not limited to the required retention period, but shall last as long as records are retained.

(f) Unless required by statute, DOL shall not place restrictions on recipients that limit public access to the records of recipients that are pertinent to an award, except when DOL can demonstrate that such records shall be kept confidential and would have been exempted from disclosure pursuant to the Freedom of Information Act (5 U.S.C. Sec. 552) if the records had belonged to DOL.

(g) Indirect cost rate proposals, cost allocations plans, etc. paragraphs (g) (1) and (g) (2) of this section apply to the following types of documents, and their supporting records: indirect cost rate computations or proposals, cost allocation plans, and any similar accounting computations of the rate at which a particular group of cost is chargeable (such as computer usage chargeback rates or composite fringe benefit rates).

(1) If submitted for negotiation. If the recipient submits to DOL or the subrecipient submits to the recipient the proposal, plan, or other computation to form the basis for negotiation of the rate, then the 3-year retention period for its supporting records starts on the date of such submission.

(2) If not submitted for negotiation. If the recipient is not required to submit to DOL or the subrecipient is not required to submit to the recipient the proposal, plan, or other computation for negotiations purposes, then the 3-year retention period for the proposal, plan, or other computation and its supporting records starts at the end of the fiscal year (or other accounting period) covered by the proposal, plan, or other computation.

T2.1.1 Tool for Reviewing Policies and Procedures

Use: The following is a list of likely areas for an organization to have explicit policies or procedures. Check to ensure that an organization has those policies and procedures that are applicable to its operation. Check also to ensure that all policies and procedures are up to date.

Likely Policy Areas for an Organization	**Applicable? Y/N If not, why?**	**Up to Date? Y/N**	**Cross References**
Allowable Costs			
Audit and Audit Resolution (including Appeals)			
Cash Management			
Closeout			
Compensation (Salary) Bonus			
Complaints and/or Grievances (al interested parties – participants, staff, board)			
Resolutions			
Appeals			
Hearings			
Conflicts of Interest, including Board members			
Cost Limitations Tracking Policy			
Debt Collection			
EEO			
Fixed Assets			
Incentives to Participants (see also Stipends)			
Incidents			
Indirect Costs (Cost Allocations Plans or Approved Indirect Cost Rates)			
Leave Policies			
Meals (staff, board, participants)			
Monitoring and Monitoring Resolution, Appeals			

and Hearings			
Participant Supportive Services			
Payroll and Time Distribution (staff and participants, as appropriate)			
Pension			
Petty Cash			
Property Management			
Procurement/ Purchasing including written Code of Conduct and Protest Policies			
Program Income			
Record Retention			
Salary Cap Limits			
Severance Pay			
Subrecipient Reporting			
Training (ITA, Refunds, etc.)			
Travel			

T2.1.2 Fiscal Monitoring Reports Worksheet
Purpose: to assist reviewers in determining the adequacy of the grantees monitoring process including resolution and follow-up.
Use: Select a sample of subrecipients who should be monitored. Answer the questions in the table below and use the information to complete the questions in 2.13.

Fiscal Monitoring Reports Worksheet				
Entity	Name	Name	Name	Name
Was it monitored? (Y/N)				
Date of Monitoring				
Date of Report				
Number of findings				
Questioned costs? (Y/N)				
Resolution of findings	# closed # open # in process	# closed # open # in process	# closed # open # in process	# closed # open # in process
Follow-up actions taken (Describe)				

Use the space below and additional space, if necessary, to explain any issues identified.

T2.5.1 Worksheet for Evaluating Allowable Match Items
Purpose: to aid the reviewer in testing the accuracy and validity of match and the property of its valuation.
Use: Answer the four questions below.

Does the grant under review include a matching requirement?_____
If so, what is the total amount required?_____
Is there a required cash match? _____
If so, what is the percentage of the total amount that must be cash? _____

If Match is required, select a sample of items that are included in the reported match, then complete the table below for each of the sample items.

Cash or in-kind item	**Value claimed in $**	**Description of cost**	**Documentation? e.g., letter of value, books of account, appraisal, etc.**	**How valued? e.g., actual cost, fair market. Value, etc.**	**Is cost allowable?**	**Does documentation support value?**

T2.11.1a Occupancy and Costs Worksheet

Use: Complete the worksheet to compare space, operations and maintenance (O&M) costs to occupancy.

- ✓ If unused space, unneeded space, idle space, or idle facilities are found, you have a finding.
- ✓ If the grant is bearing more costs than its fair share based upon occupancy or usage, you have a finding.
- ✓ If operation and maintenance charges are excessive, you have a finding.
- ✓ If proper approvals were not obtained, you have a finding.

Individuals Location Cost compared with Occupancy (Complete a copy of the table for each or a sample)			
Property Name Property Street Address Is this building owned or leased? **If leased…**	City, State **If owned…**		
What is the period for which a single payment is made?			
What is the amount paid for that period?			
Was there a deposit?			
If yes, what was the amount			
Was it recorded as an asset in the books of accounts?			

Occupancy percentages compared with charges by program

Program	**Actual % Occupancy Paid**	**A mount of Space Cost**	**Calculate Percent Paid**	**Amount of O&M Cost**	**Calculate Percent**
UI NEG WIA Wagner-Peyser Trade Programs Other DOL programs Other Federal programs Other Occupants Grantee Funds & Source Unused Space					
Total					

Note: If there are variances between occupancy and cost paid percentages, explain. See also, Indictor 3.41 cost allocation; resource sharing.

T2.11.1b Supplemental Occupancy and Costs Worksheet
Purpose: Assist the reviewer in determining if occupancy costs charged are appropriate
Use: Complete for each property if the property it owned and is being depreciated or a use allowance charged; if there is a less-than-arm's length transaction; if there is a sale and leaseback arrangement. Allowance charges for Federally-funded programs must be based on the actual costs of occupancy. Fair market rental rated are not allowed for Federally-funded programs in these situations.

The data will be used in preparing your written reports.

Land and Building Costs			
Name of Property			
Year of acquisition		Original Fund Source	
Useful Life		1. Reed Act	
Original Costs:		2. Gen. Obligation Bond	
1. Land		3. Transfer of UI Equity	
2. Building		4. Transfer of ES Equity	
3. Interest		5. Penalty and Interest	
4. Total		6. Grantee Funds (Specify)	
% of depreciation or use allowance previously paid with Federal $		7. Other DOL	
% of remaining depreciation or use allowance		8. Other Federal (Specify)	
Total Square footage		9. Other Non-Federal	
		10. Total- All Fund Sources	

Note: Recovery of use and depreciation cannot exceed 100% of the acquisition costs including capital improvement projects.

Improvement Worksheet			
Name of Property and name of improvement:			
Note: Each improvement should be listed separately & should be added to the original cost of the property			
Description		Distribution of depreciation or use allowance charges (all occupants of the space)	
Year of improvement		UI	
Cost		NEG	
Useful Life		WIA	
		Wagner Peyser	
		Trade	
		Migrant	
		Other Federal (specify)	
		Grantee funds	
		Other	
		Total Cost $	

Note: For capital improvements not approved as direct charges, the cost can be only be recovered trough depreciation or use allowances, unless the improvements were part of tenant improvement cost identified in the lease agreement.

T3.4.1a Cost Allocation Worksheet

Purpose: to assist reviewers in determining whether allocation of costs have been made in accordance with the requirements of the OMB Circulars and applicable regulations.

Use: Obtain a copy of the organization's cost allocation plan (CAP). Review the CAP to identify any cost pools or shared direct costs. Obtain the worksheet/spreadsheet that reflects actual monthly or quarterly expenditures that were allocated among and charged directly to programs. Select any cost pools and a number of shared costs items, and complete the table for each.

Cost Pools and Shared Direct Costs			
Cost pools or shared cost items	Allocation method is appropriate for the type pf cost pool or cost item allocated? Y/N	Payments were appropriately allocated according to the CAP? Y/N	Final allocations appear to reflect the benefit received by cost objectives? Y/N

When you look at the cost pool, does it appear that all items should be included? Are the allocation methods used by the organization appropriate for the types of costs being allocated. Use this information to complete the review guide.

T3.4.1b Resource Sharing Worksheet
Purpose: to gather documentation to assist the reviewer in determining if the local area's MOU funding document of Resource Sharing Document contains the appropriate elements and meets requirements. NOTE: This tool is only used when conducting a formula grant review.
Use: Complete the table below for each local area reviewed. If there are multiple agreements, complete the table for a sample of partners.

Local Area:			
Checkpoints	**Y/N or Date**	**Adequacy**	**Comments**
Does the agreement contain:			
1. Parties to the agreement?			
2. Identification of Shared Costs?			
3. Method of allocating Costs?			
4. Method used to pay for shared costs			
5. Modification and Reconciliation Procedures			
6. Authority and Signatures?			
Is the agreement for the current period?			
Has the agreement been modified, e.g., partner or funding changes? If yes, enter Date.			
Is a reconciliation performed?			
Do they operate in accordance with their plan?			
In your judgment, is the process adequate and reasonable?			

For any identified finding, obtain relevant documentation / reports and share them with your regional fiscal office

T3.6.1 Separation of Duties Worksheet
Purpose: to aid the reviewer in identifying the individuals responsible for a number of internal control functions within the organization.
Use: Enter in the top row the names of staff who have any of the responsibilities listed in the table. Place a checkmark below a name if that person has responsibility for that function. (ck = check; cust = custodian)

Individuals with Responsibility for Internal Controls													
IC Activity													
Approves Purchase Orders													
Verify Receipt of Orders													
Prepares Request for Funds													
Authorizes Disbursement													
Prepares Checks													
Signs Checks - Manual													
- Machine													
Cust of CK Signing Device													
Cust of Blank Checks													
Compare Cks with Vouchers													
Distribute Checks													
Post Disbursements													
Compute Cost Allocations													
Receives “Cash”													
Post Receipts													
Deposits Receipts													
Cust of Petty Cash													
Petty Cash Replenishment													
Audits Petty Cash													
Bank Reconciliation													
Maintains General Ledger													
Prepares Financial Report													
Approves Financial Report													

T3.7.1 Accrual Worksheet Tool
Purpose: to aid the reviewer in determining the actual amounts of accrued expenditures to be reported for a given period.
Use: Select a report period. Through an analysis of the grantee's financial system, complete the table below and use the results to answer the questions for Indicator 3.71.

Accrual Worksheet				
	Official Books of Account as of:	**Accruals – Expenditures and Program Income**	**Total Accrued Expenditures and Program Income**	**Comments**
Salaries				
Fringe				
Travel				
Cost Item				
Cost Item				
Cost Item				
Cost Item				
Cost Item				
Cost Item				
Cost Item				
Total Reported				
Program Income				
TOTAL				

In accordance with 20 CFR, Part 667.300 (c) (3): Reported expenditures and program income, including any profits earned, must be on the accrual basis of accounting and cumulative by fiscal year of appropriation. If the recipient's accounting records are not normally kept on the accrual basis of accounting, the recipient must develop accrual information through an analysis of the documentation on hand.

T3.9.1 Matrix for Classification of Specific Cost items
Purpose: the Cost Classification Matrix is used to aid the reviewer in determining whether costs are appropriately classified for administration or program

Grantee Costs	**Admin**	**Program**
Salaries and Fringe Benefits		
Staff		
Accounting	X	
Administrative Overhead	X	
Advertising	X	X
Audit Services	X	
Audit Staff	X	
Automatic Data Processing	X	
Budgeting	X	
Case Management		X
Clerical Asst. to a Supervisor	X	X
Clerical Asst. to Training Personnel		X
Coordination of Participant Services		X
Counseling		X
Data Processing Staff	X	X
Development of On-the-Job-Training/Workforce Excellence Training Plans		X
Eligibility Determination		X
Executive Staff	X	X
Fiscal Staff	X	
Follow-Up Analysis		X
Initial Assessment		X
Intake		X
Job Coach		X
Job Developer		X
Job Search Assistance		X
Labor Market Analysis		X
Legal Staff	X	
Maintenance Staff	X	X
Monitoring	X	X
Objective Assessment (Employability/Testing)		X
Outreach to Employers to Obtain Job listings		X
Participant Follow-Up		X
Personnel Staff	X	
Placement Staff		X
Program Analysts		X
Program Design / Curriculum		X
Supervisors	X	X
Training Personnel (includes remedial education, basic skills, institutional training)		X
Other		
Capital Expenditures	X	X

Communication	X	X
Equipment Expenditures	X	X
Grantee Costs	**Admin**	**Program**
Indirect Costs	X	X
Insurance & Indemnification	X	X
Interest	X	X
Maintenance & Repair	X	X
Management Studies	X	X
Materials & Supplies	X	X
Memberships	X	X
Motor Pools	X	X
Premises	X	X
Professional Services	X	X
Profit	X	X
Publication and Printing	X	X
Rental Costs	X	X
Staff Training & Education	X	X
Subscriptions	X	X
Taxes	X	X
Transportation	X	X
Travel	X	X
Utilities	X	X
Participants Costs		
100% of Participants Payments for Work Experience Program		X
100% of Participants Payments for Vocational Exploration		X
100% of Participants Payments for Limited Internships		X
Allowances		X
Incentives/Bonus Payments		X
On-the-Job-Training		X
Tuition		
Entrance Fees for Participants (lab fees, activity fees, parking fees, application fees, accounting fees, graduation fees)		X
Supportive services and Financial Assistance		X
Tuition for Participants		X
Support Services		
Child Care		X
Family Planning and Counseling		X
Financial Counseling (incl. counseling on budget & money mgt)		X
Health Care (incl. diagnostic & treatment svcs. for identification & correction of physical, mental, & dental problems)		X
Legal Services		X
Meals		X
Post Placement Services		X
Special Services and Materials for the Handicapped		X

Temporary Shelter (incl. providing clean & comfortable places to eat, sleep & study)		X
Transportation (includes fares for public transportation, mileage for personal auto, transportation allowances)		X